"Compliance with the FATF Recommendations and how it effects Suspicious Activity Reports"

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Dissertation submitted in partial fulfilment of requirements for the MSc in Economics, at the Universidade Católica Portuguesa, 30th of August, 2017

Abstract

The Financial Action Task Force (FATF) 40 recommendations suggest a legislative and institutional framework to prevent Money Laundering and Financing of Terrorism. The financial and human cost of implementing 40 FATF recommendations is very high and there has been no proper evaluation of the effectiveness of the FATF recommendations in increasing communications to the police. I identify a set of 9 FATF recommendations that have been largely ignored by legislators and target important issues: surveillance of **Politically Exposed Persons**, **Beneficial Ownership, Transaction Reporting** and **Independence of Investigation.** I explain compliance with the FATF recommendations, specially the sub set of 9 recommendations, with cultural, institutional and socio-economic variables. I introduce a new variable: the number of Political Mandates; to proxy the political environment of countries. I show that compliance with the FATF recommendations is positively related to increases in communications of Suspicious Activity Reports to the police for a sample of 23 countries. Finally, I show that the 9 special recommendations have a stronger impact on these communications than the FATF 40 recommendations

O GAFI (Grupo de Ação Financeira Internacional) sugere a adoção de 40 recomendações da sua autoria para a prevenção do Branqueamento do Capital e do Financiamento do Terrorismo. Os custos de implementação a nível financeiro e humano são muitos elevados e não houve até à data uma avaliação sobre a eficácia destas recomendações em aumentar o número de investigações policiais. Eu identifiquei 9 recomendações que lidam diretamente com os seguintes tópicos: averiguação de Pessoas Politicamente Expostas, Beneficiário Efetivo; Relatórios de Transação e Independência de Investigação. Eu utilizo fatores culturais, institucionais e socioeconómicos para explicar a conformidade com as 40 recomendações do GAFI; especialmente com estas 9 recomendações. Eu introduzo uma nova variável: o número de Mandatos Políticos, numa tentativa de capturar o impacto da instabilidade política. Mostro ainda que a adoção das recomendações do GAFI está positivamente relacionada com o aumento de Relatórios de Atividades Suspeitas recebidos pelas várias polícias numa amostra de 23 países. No fim, eu mostro que as 9 recomendações têm um impacto maior no número de relatórios recebidos do que as 40 recomendações.

Acknowledgments

I would like to thank the FATF, the World Bank, the International Narcotic Control and Strategy Group of the U.S Department of State, the United Nations, the IMF and the Financial Intelligence Units of the following 23 countries for providing the data I have used in this thesis: Australia, The Bahamas, Bermuda, Belgium, British Virgin Islands, Cayman Islands, Chile, Estonia, France, Germany, India, Italy, Japan, Rep. of Korea, Latvia, Luxembourg, Malta, Portugal, Qatar, Sri Lanka, Turkey and the United Kingdom.

I also want to thank Inspector Palma Martins and former Inspector Carla Leão of the Unidade de Informação Financeira da Polícia Judiciária for their promptness and willingness to help whenever I needed them and my two supervisors, Tommaso Ramus and Pedro Raposo.

My my friends Ana, André, Carlos, Carlota, Miguel and Ricardo, whom I know like me very much; My colleagues at Católica, Anne Winkler, Moritz Schmidt, Margarida Paixão, Teresa Sarmento and Paulo Salvador for colouring my days; the staff in the Masters Students Affairs and all the teachers I came across at Católica who were so nice, helpful and comprehensive towards me.

Finally, to say how very thankful I am for having been able to study and to the people who made it possible.

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List of Abbreviations

AML	Anti-Money Laundering
AMLCFT	Anti-Money Laundering Combating Financing of Terrorism
BC	Banking Concentration
C	Compliant
CML	Criminalization of Money Laundering
CO	Control for Corruption
DNFBPs	Designated Non Financial Business Professionals
EU	European Union
FATF	Financial Action Task Force
FATF 40+1	Financial Action Task Force 40 Recommendations
FATF40 Index	Financial Action Task Force 40 Recommendations Compliance Index
FBI	Federal Investigation Bureau
FDP	Foreign Direct Investment as % of GDP
FIU	Financial Intelligence Unit
FT	Financing of Terrorism
GDP	Gross Domestic Product
IMF	International Monetary Fund
Key Index	Key Recommendations Index
LC	Largely Compliant
LogGDP	Logarithm of Gross Domestic Product
M2	Monetary Base 2
Mandates	Political Mandates
ML/FT	Money Laundering and Financing of Terrorism
NA	Non-Applicable
NC	Non-Compliant
NIM	Net Interest Margin
Obs	Observations
PC	Partially Compliant
PEP	Politically Exposed Person
Rec.	Recommendation
RNFSE	Ratio of Net Financial Service Exports
RQ	Regulatory Quality
SARs	Suspicious Activity Reports
UIF	Unidade de Informação Financeira
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNDOC	United Nations Office on Drugs and Crime
UNIDIX	United Nations International Drugs Index
YoA2007	Year of Assessment in 2007

1. Introduction

The Financial Action Task Force (FATF) on Money Laundering is an intergovernmental organization that suggests a legislative and institutional framework for countries to adopt in order to fight Money Laundering and the Financing of Terrorist Acts (ML/FT). Its body of work consists of 40 individual recommendations that should be adopted at the country level. This framework includes, among others, operational procedures for the Criminal Police, which has the responsibility to conduct investigations on reports on suspicions of Money Laundering and Terrorist Financing. The present framework includes 40 recommendations. I suspect that of these 40 recommendations, 9 should be addressed more carefully for efficiency and cost purposes. Countries have gone to different depths of adoption of the FATF recommendations. The FATF recommendations find their way into the national legislations by directives and treaties sponsored by several international organizations and conventions.

There has been criticism of the FATF's approach to ensure a proper international set of rules to avoid ML/FT. These criticisms fall mainly on the large number of recommendations and the disparity between countries *vis-à-vis* their internal resources. The FATF 40 recommendations suggest the creation of the same institutions and laws in all countries. These require skilled human resources and financial means in a way that small island nations, developing countries and small economies can never make available in the same way as first world countries can. Even in powerful economies, the resources (financial and human) spent on compliance efforts are substantial and its effectiveness has not been properly assessed. A proper effectiveness analysis of the current compliance framework of the FATF is largely overdue, specially since the resources allocated to compliance have substantially increased since the 2007-2008 Financial Crisis.

A careful analysis of the FATF Reports on different countries unveils a pattern of deceitful compliance, with the international guidelines. Countries adopt many of the 40 recommendations, but fail to properly ensure full compliance with certain recommendations which are ***effectively*** related to the prevention of ML/FT. I have isolated **9** FATF recommendations which deal directly with: **Politically Exposed Person**; **Beneficial Ownership**; **Transaction Reporting;** and **Independence of Investigation**. These 4 topics are crucial pillars of a sound judicial system and have a direct impact on the prevention of crime.

Even though countries can freely join the FATF group, compliance with the 40 recommendations is not mandatory because the FATF is devoid of coercive power. Countries adopt its recommendations independently as the result of national and international factors. The national factors that operate behind compliance with the FATF 40 Recommendations were studied by Yepes (2011) who isolated cultural, institutional and socio-economic variables to explain compliance in a sample of 116 countries. Yepes also mentioned that the lack of information on criminal activities related to ML/FT made impossible to assess the extent to which compliance with the FATF framework had a decreasing impact on crime. I have collected information on the early stages of criminal investigations[1] over ML/FT for a sample of 23 countries thus allowing briefly to assess the efficacy of the FATF framework.

In my thesis I use the same factors Yepes uses plus one additional variable: the number of political mandates; to explain compliance with the 40 and 9 FATF recommendations in my sample of 23 countries. I complement Yepes' work by assessing the impact of compliance with these two sets of recommendations on criminal investigations.

I find that the cultural, institutional and socio-economic factors are still significant in explaining compliance with the 9 recommendations. This happens because the attitude towards Politically Exposed Persons, Beneficial Ownership, Transaction Reporting, and Independence of Investigation captured in compliance with the 9 recommendations is more sensitive on cultural, institutional and socio-economic factors than the plethora of issues covered in the 40 recommendations, specially in an environment of non-coerciveness dependent on political free will. I also suggest that the governments' attitude towards these 4 crucial topics is dependent on the stability of the political system: To proxy this stability, the number of political mandates for the period 1970-2016 was added to the explanatory variables. Finally, I estimate the impact of compliance with the 9 recommendations, is stronger than the impact of the overall 40 FATF recommendations, on criminal investigations.

The findings in this thesis validate the choice of variables in Yepes to proxy cultural, institutional and socio-economic factors which explain different levels of compliance across countries; the impact of political stability on compliance; the relative effectiveness of the FATF framework in improving criminal investigations and a reinforcement of the argument for case specific ML/FT guidelines over the current FATF approach of one size fits all. Measuring the effectiveness of the FATF regime is almost impossible because there is no centralized information on ML/FT related crime that can be linked to Compliance. As such, I focus on the early stages of the criminal process, which starts by Suspicious Activity Reports submission which can be linked to compliance with the FATF regime.

[1] Information on Criminal Investigations was not available in 2011;

2. Literature Review

2.1 The FATF and the 40 Recommendations

Money Laundering is "*any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources". Illegally obtained funds are laundered and moved around the globe using and abusing shell companies, intermediaries and money transmitters. In this way, the illegal funds remain hidden and are integrated into legal business and into the legal economy*[2]. (Interpol, 2017).

The Financial Action Task Force (FATF) on Money Laundering is an intergovernmental organization created by the G7 in 1989, which Initially had 16 members and as of 2017 counts 35. The FATF issued 40 recommendations with the aim of *"improving national legal systems, enhancing the role of the financial sector and intensify cooperation in the fight against money-laundering***.** The FATF has a set of 40 recommendations which must be adopted at a country level to restrain Money Laundering and the Financing of Terrorist[3] acts. The FATF regularly conducts evaluations at the national level called Mutual Evaluations, in which the compliance with the 40 recommendations is assessed. Compliance is classified in 4 categories: Non-Compliant, Partially Compliant, Largely Compliant and Compliant. The 40 recommendations are divided according to their scope in: **Legal Measures, Institutional Measures, Prevention in Financial Institutions; Prevention in the Informal Sector; Entity Transparency; International Cooperation; Anti-Money Laundering and Criminalization of Terrorist Financing**. The FATF recommendations include duties that fall upon, what the FATF denominates, subject entities. The FATF divides subject entities into **Financial Institutions** and **Designated Non-Financial Business Professionals (DNFBPs)**. Inside the DNFBPs, one can find the sub group of Legal Professionals[4] The recommendations suggest the creation of laws to fight Money Laundering and Terrorist Financing and the creation of a specialized unit inside each country's police to deal with such issues: The Financial Intelligence Unit (FIU).

The recommendations state clearly the duties that each activity group (Financial Institutions, DNFBPs and Legal Professionals) are compelled to fulfil. The duties include

[2] Interpol 2017;
[3] ML/FT;
[4] See Table 1: FATF Subject Entities;

informing the FIU whenever a suspicious situation arises. The criteria for a situation to be classified as suspicious are defined throughout the 40 FATF recommendations on a general plane, and at a national level, depending on the level of adoption of each country of the FATF recommendations. Suspicious situations occur whenever a professional group enters into a business transaction with an agent, whose behaviour, purpose and *modus operandi*, might suggest, within the legal criteria, that there is reason to suspect the existence of Money Laundering or Terrorist Financing activities. The following examples illustrate simply what can originate a suspicion of Money Laundering and Terrorist Financing: If a regular bank costumer whose account movements were stable for a long time, suddenly starts moving large quantities of money, the bank should inform the FIU; If a Palestinian national decides to open an account in Portugal, the bank should inform the FIU; If a bank account is the recipient of funds which originate in complicated regions of the world, the bank should again inform the FIU; If a client approaches a lawyer for the creation of a legal arrangement which conceals the beneficiary owner of such a legal instrument, and if the lawyer suspects the existence of Money Laundering or Terrorist Financing, he or she should inform the FIU; If a costumer suddenly appears in a money exchange bureau and exchanges large and unusual amounts of currency, the money exchanger should inform the FIU.

The subject entities inform the FIU that they suspect some illegal activity is being perpetrated by submitting **Suspicious Activity Reports** (SARs). These reports are informative in nature. They provide the necessary information required by law to be provided to the FIU. The FIU in turn, analyses the reports. The FATF insists that *only* the FIU should have the power and the means to analyse these reports to ensure independence of investigation.

The FIU internally decides whether there are grounds to conduct an investigation or not. If not, the SARs are archived. If there is evidence of illegal activities the FIU starts the investigation by disseminating the SARs to the investigation department inside the FIU or to any other existent prosecutorial body in that particular jurisdiction, which is entitled to conduct criminal investigations. There are 4 types of FIU[5]: Police-Type, Administrative, Law Enforcing and Hybrid. These differences arise from the different statute of the criminal police in each country prior to the creation of the FIU. In any case, once there is a confirmation of a suspicion the SARs are disseminated and give way to an investigation by the prosecutorial authorities.

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[5] see Table 2: Financial Intelligence Units, an Overview, IMF 2004;

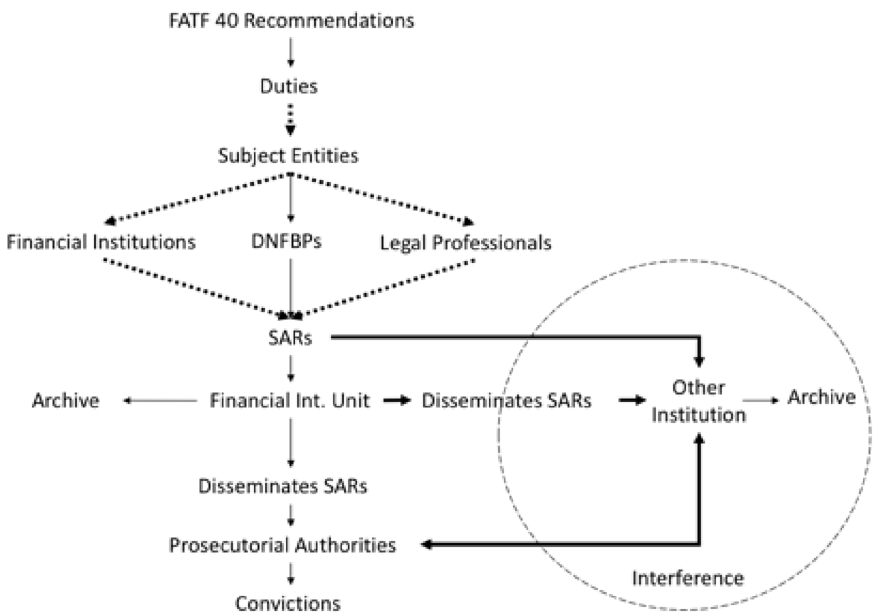
In short the process goes as follows: There is a suspicious situation, the subject entities report it to the FIU which analyses them. The FIU either archives the reports or disseminates them to start an investigation. The investigations can be undertaken by the FIU or by other prosecutorial authorities. If the FIU has the power to start an investigation and act as a prosecutorial authority depends on the status of the FIU in that jurisdiction. However, the FATF states clearly that the FIU *alone* has privy to the information in the SARs before choosing to disseminate them. No other body should be able to analyse SARs. This process is displayed in Figure 1. Not all countries comply fully with the FATF recommendations. In fact, compliance is around 40% with clear differences in compliance scores between developed and developing countries[6]. As such, it is not possible to have such a stream lined flow of information as displayed in Figure 1. Some countries have different internal realities, with more agents exerting their influence in the flow of information. The FATF has this in account and states that, the FIU *alone*[7], should have the power to analyse SARs arising from suspicions of Money Laundering or Terrorist Financing. As such, deviant national systems should be reorganized to comply with the process described in Figure 1. Many Countries, Portugal included, have what is called a dual system.

Figure 1: Optimal information flow with full compliance with the FATF 40 Recommendations.

Notes: Suggested Framework for dealing with SARs under full compliance; Bernardo Vidal (2017)

[6] Yepes (2011);
[7] See Recommendations 20 and 29;

Figure 2: Information Flow without full Compliance[8] (Portuguese Case)



Notes: Suggested Framework for dealing with SARs with distortions due to incomplete compliance with the 9 recommendations; Bernardo Vidal (2017)

A dual system is a system in which, SARs are submitted to the FIU and to another institution. In Portugal, SARs are submitted to the FIU and to the Procuradoria Geral da República. The FIU in Portugal has to inform the Procuradoria Geral da República of the SARs it has received, what do they contain and what investigation are they planning to conduct. The Procuradoria Geral also has the power to conduct its investigations, parallel to the FIU. This creates enormous conflicts of interest, transparency and legitimacy, as the Procuradoria Geral da República is a political body, dependent of the government. Other variants of this process exist in more countries, but they can mostly be schematized with a graph found in Figure 2.

Non compliance with specific recommendations is transversal across countries, with the lowest levels of compliance being found among the recommendations that stipulate the duties of Legal Professionals. This is especially critical given that lawyers and legal service providers play key roles in establishing legal arrangements through which Money Laundering and Terrorist Financing can occur. I have identified the set of recommendations which remain

[8] Other Institution would be the Procuradoria Geral da República, a National Bank, a Supervisory Authority or any other institution which has investigative power within that specific jurisdiction;

largely ignored at the national level, not only in Portugal, but as said before, across many other countries in the Mutual Evaluation Reports of the FATF. These recommendations cover the following topics: **Politically Exposed Persons**, **Beneficial Ownership**, **Transaction Reporting** and **Independence of Investigation**.

- ***Politically Exposed Person*** **(PEP)** is a concept used for individuals who have held prominent public functions. It covers Domestic PEPs; Foreign PEPs, International Organization PEPs, Family members of PEPs and close associates[9]. Proper surveillance of PEPs is a challenging process but nonetheless necessary as the ties between politics and business are at times very tight;
- ***Transaction Reporting*** covers the need to report whenever a Bank transfers funds from location X to location Y. This is extremely important if one of these locations is for example, a Tax Haven, war zone or a country which does not cooperate with international practices;
- ***Beneficial Ownership*** entails the right of prosecutorial authorities to access information regarding the beneficial owners of legal entities settled domestically and abroad for the purpose of conducting criminal investigations in a time frame compatible with the successful conclusion of the investigation;
- ***Independence of Investigation*** is extremely important. Investigators should be free from political pressures in the course of their investigations. In Portugal, SARs are submitted to a *Dual Reporting System*, which forces subject entities to report directly to the FIU and to Procuradoria Geral da República. This is contrary to what the FATF regime suggests and creates conflicts of interest. Subject Entities should file SARs only to the FIU.

Some countries also fail to avoid the dual system and to properly define and adopt, at a national level, the **duties** of the subject entities as defined by the FATF. Therefore, Legal Professionals remain largely unregulated within the FATF Framework. The relevant Legal Professionals are: **Lawyers; Notaries; Tax and Accounting Professionals** and **Registry**

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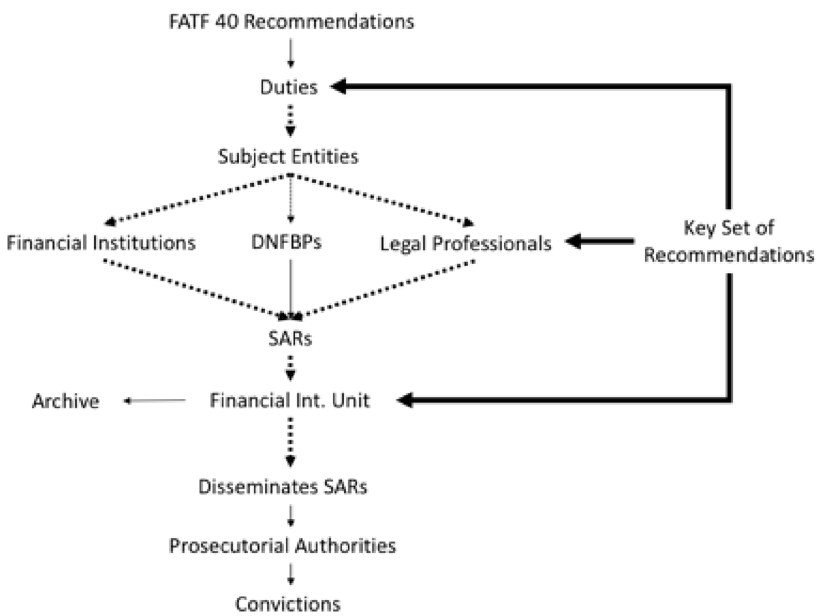
[9] UNCAC Article 52: United Nations Convention against Corruption on asset recovery: analysis of reported compliance and policy recommendations;

Services, while the relevant financial subject entities in are **Banks** and **Insurance Companies**. I have identified the set of recommendations which remain largely ignored at the national level, not only in Portugal, but in other countries. Portugal in particular has made no effort to improve its compliance with the recommendations that demand a clearer definition of duties for subject entities, the end of the dual system and regulations for Legal Professionals. This is demonstrated in the Mutual Evaluations of 2006, 2008, 2010 and 2012. Non compliance with these recommendations has direct impacts on the duties of subject entities, the obligation to report SARs and in the powers of the FIU. Non compliance in turn depletes the quality of the judicial system and of the law enforcement authorities because it allows for illegal behaviours to remain undetected, not investigated and ultimately, not criminalized. Figure 3 accurately highlights the stages in the optimal process, as defined by the FATF in Figure 1, that are directly affected by poor compliance of the selected group of recommendations.

Figure 3: Areas affected by non-compliance with the Key Set of Recommendations



Notes: Poor compliance with the Key Set of 9 recommendations directly effects the Duties of Subject Entities, the regulation of Legal Professionals and the Independence of the FIU. Bernardo Vidal (2017)

The sub set of 9 recommendations which have critical impacts in the system will be henceforth known as the **Key Set**. This Key Set of recommendations is striking in a number of aspects. First, they remain largely ignored by most jurisdictions. These recommendations were almost never fully adopted and the periodic evaluations conducted by the FATF at the country level over the last two decades have detected practically no increase in compliance[10]. the low level of political will to implement them. Second, they are linked to serious distortions in the system proposed by the FATF (Figure 2). Third, they directly refer to proper surveillance of Politically Exposed Persons, Lawyers, other Legal Professionals and Non Cooperative jurisdictions (off-shores, opaque jurisdictions and repressive regimes)[11]. Forth, they score the lowest compliance scores among all 40 FATF recommendations[12]. For simplicity there is a short summary of each recommendation below:

- **Rec.10:** Costumer Due Diligence- Financial Institutions should evaluate the client and his actions according to the FATF Standards (nationality, sums involved, origins and destinations of transfers);

- **Rec.12:** Politically Exposed Persons -The FIU should be informed whenever a subject entity enters into a business transaction with a politically exposed person;

- **Rec.14:** Natural and Legal Persons who provide money or value transfer services should be licensed and surveyed under the proper sanctions;

- **Rec.16:** Wire Transfers: Banks should inform whenever they make transfers to non cooperative jurisdictions and accurately identify the originator or the transfer and the identity of the beneficiary;

- **Rec.20:** Filling an SAR should be compulsory by law (Lawyers are not obliged to do so) SARs must be directed to the FIU;

- **Rec.22:** Duties of Legal Professionals should be clearly defined in the law and proper sanctions should be in place;

[10] See FATF Mutual Evaluation Reports;
[11] The complete text of the Key recommendations can be found in page 41 of the Appendix;
[12] Recommendations 10 and 12 have the lowest compliance score of all 40 recommendations;

- **Rec23:** Other Measures regarding DNFBPs. Lawyers, notaries, independent Legal Professionals and accountants, dealers of precious stones, trust and company service providers should report whenever they face a suspicious activity.

- **Rec.24:** There should be transparency about the Beneficial Owner of Legal Persons and Legal Arrangements (Bearer Shares Societies, Off-shores, Trusts, Non-Profit Organizations);

- **Rec.28:** There Should be a regulatory body for each group of Subject Entities (Portugal: Banco de Portugal, CMVM, ASAE, Ordem dos Advogados and so forth).

It should be evident by now that the issues tackled in the Key Recommendations are directly linked to the prevention of large scale white collar crime.

Money Laundering *per se* is usually a harmless activity. The harm lies in the activity which originates the need to launder money. In the case of large scale white collar crime, harm can go a long way. As such, and given the wide spread presence of cases of white collar crime, which link politically exposed persons, the financial sector and the failure of the regulatory bodies, it is logical to question the practical effectiveness of complying with the FATF recommendations and its inherent costs. More so because countries which have complied to a large extend have nonetheless registered plenty of crimes.

Measuring the effectiveness of the FATF recommendations is not a straightforward task. It is not possible to establish correlations between SARs and Convictions because the processes go through different institutions and have different references throughout (Yepes, 2011). Also, there is no centralized information on SARs and Convictions. So, an analysis of the effectiveness of the FATF recommendations cannot include the whole process presently.
As such, I focus on the first stages of the process using the information published in the FIU's Official Annual Reports. I use SARs fillings, Disseminated SARs and SARs by origin (submitted by the different subject entities: Banks; Casinos; Insurance Companies; Lawyers; Notaries; Money Exchangers and the remaining subject entities). Legal Professionals are notorious for the extremely low number of SARs filled. This is not surprising, as the recommendations that force them to submit SARs are largely ignored.

These three pieces of information: number of SARs, origins of the SARs and Disseminated SARs, already allow for some measure of effectiveness when linked with the compliance level of the FATF recommendations. It is possible to establish a link on how compliance with the FATF recommendations influences the total number of SARs, SARs by Disseminated SARs and SARs submitted by Legal Professionals. More specifically, I want to see how compliance with this restricted set of 9 recommendations, the Key Set, is related to SARs fillings and Dissemination.

It is relevant to assess the power of the relationship between the FATF recommendations and the SARs filled and disseminated for investigation because: First, as mentioned before, the resources spent on the adoption of new regulations are considerable. Second, compliance with all the FATF regulations demands specialized professionals, which might not be at reach of small and middle scale businesses. Thirdly, when ineffective, excessive regulation can be a burden for the economy, especially small ones, such as Portugal[13]. It can be an economic burden, as well as an operational burden, as vital resources are diverged towards compliance related issues. To address the matter, this thesis is divided into three parts.

Parts 1 and 2 are similar and differ only in the sample of countries used. In the 1st part there is a replication of the methodology of Yepes (2011, IMF) for a sample of 116 countries. Yepes found that compliance with the FATF regime is positively related to the level of economic development and domestic governance. Compliance was measured by constructing an Index from 0 to 1 that measures the level of adoption of the FATF recommendations. Economic development and domestic governance were captured by two sets of independent variables: cultural and institutional variables and socio-economic variables. Yepes' method assessed which factors underlie the compliance index with the FATF 40 recommendations and its individual components but did not link the FATF regime with SARs due to lack of information. This methodology provides a solid empirical base to subsequently analyse compliance with the 9 Key recommendations.

In the 2nd part the sample is restricted to 23 countries. The criteria for the restriction is the existence of public information on SARs, which only 23 countries publish. This special set

[13] Hubli and Geiger (2004);

of recommendations was collected from the Mutual Evaluation Reports of the FATF at a national level. My sample consists of 23 heterogeneous countries. Information on SARs for the period 2006-2015 was collected from 189 reports published by the financial authorities of each country. The same procedure of the 1st part is repeated with 23 countries to assess if the variables which explain compliance with the FATF 40 recommendations and the FATF40 Index components in the large sample, also hold explanatory power in the 23 country sample. There is a potential loss of information by reducing the sample from 116 to 23, even though the time period under analysis is larger, with 10 years versus the initial 5. Nevertheless I have more observations (230) than Yepes (circa 86)[14].

The 3rd Part is the core of the analysis. The same methodology is applied but with different dependent variables. Instead of the FATF compliance index and its components, I computed a new index, called the Key Index, in which compliance with the set of 9 recommendations which I have isolated is evaluated. Analogous to the FATF40 Index components, the components of my Key Index are the individual recommendations I have isolated[15]. I computed this index using the same procedure as Yepes (2011). A new explanatory variable will be added to the independent variables in parts 3: the number of Political Mandates between 1976-2016. This acts as a proxy for the political landscape of the 23 countries. Finally, to address the effectiveness of the FATF recommendations, the relationship between SARs fillings, SARs Disseminated for investigation and SARs fillings by Legal Professionals I do three simple regressions. In these regressions, the dependent variables are the SARs and the independent variables are the FATF40 Index and the Key Index.

The results show that, the factors which explain compliance with the FATF40 Index have a stronger explanatory power when the sample goes from 116 to 23 countries. The results also show that those same factors have a stronger explanatory power in explaining compliance with the Key Index and its individual 9 recommendations, than with the FATF40 Index and its individual components. It is also found that the variable Political Mandates is very significant in explaining compliance with the Key Index, and that it has a negative impact. Finally, both indexes, the FATF and the Key Index are shown to have an impact on the number of SARs

[14] Yepes (2011) used the average values for the period 2004-2008 whereas I use yearly observations;
[15] Recommendations 10, 12, 14, 16, 20, 22, 23, 24 and 28;

filled, the number of SARs filled by Legal Professionals and the SARs Disseminated for Investigation. The difference between the indexes is that the Key Index has a stronger estimated impact on all 3 dependent variables, than the FATF40 Index. This suggests that some recommendations are more important than others with the Key Set of recommendations being more related to the designated socio and economic factors.

2.2 Summary of International and National Efforts in Anti-Money Laundering Regulation

After the creation of the FATF there has been an increase in the public awareness of the risks and consequences of Money Laundering and its connection to terrorist attacks. The wide spread knowledge of the reputational, economic, and social effects of the illegal activities connected to Money Laundering actions has, in part, been in the background of several political initiatives that seek its prevention and elimination. In 1988 the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, sought to establish a general framework to control the above mentioned problems. The FATF was created in 1989 in the follow up of the 1988 United Nations Vienna convention. Its expression at the European level came in November the 11th of 1990 with the signature of the Convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. This was promoted by the Council of Europe which brought together all its then members in addition to non-member states which were also present during the elaboration of the final regulations, which were based on FATF regulations.

The FATF predicts the creation of a Financial Intelligence Unit in every country to deal with the issues of Money Laundering and Terrorist Financing. To fulfil this, the Egmont Group was created in 1995. The Egmont Group is an international organization whose members are the several FIUs from around the world. Besides the establishment of an FIU, it seeks to foster the exchange of information and institutional cooperation between it’s members. The national expression of this agreement is the UIF- *Unidade de Informação Financeira*, incorporated in Polícia Judíciária, which started operations in 2009.

In 1997, the United Nations created the United Nations Office on Drugs and Crime (UNDOC), merging the former United Nations Drug Control Programme and the Centre for International Crime Prevention. Inside the UNDOC there is a specialized division responsible for “carrying out the Global Programme against Money-laundering, Proceeds of Crime and the Financing of Terrorism” called The Law Enforcement, Organized Crime and Anti-Money Laundering Unit. This unit operates in many countries either directly or, in cooperation with national institutions, namely, the FIUs.

The year 2000 saw the United Nations Convention against Transnational Organized Crime, symbolically held in Palermo Italy. Focused mainly on human and arms traffic, it was nonetheless valuable because it brought together many governments and established the joint commitment to implement, at a national level, the resolutions of that same convention.
In 2001 the United Nations adopted resolution 1373 which brings to light the need to broaden the scope of what is considered a crime or an offense in the fields of Money Laundering and the Financing of Terrorism. The resolution therefore “imposed certain obligations on Member States, such as the prevention and the suppression of the financing of terrorist acts, the criminalization of terrorism-related activities and of the provision of assistance to carry out those acts, the denial of funding and safe haven to terrorists and the exchange of information to prevent the commission of terrorist acts”[16]. Such a task further reinforced the need for cooperation of the financial and non financial sectors at the national levels.

New guidelines to protect national financial systems from being unknowingly used to finance terrorism were published in in April 2002, in line with the resolutions from the International Convention for the Suppression of the Financing of Terrorism (1999).
The year 2005 saw the combined efforts of the IMF and the UNODC produce a compendium of Model-Legislation on Money Laundering and the Financing of Terrorism. This compendium brought together expertize from experts in international civil law. Its goal is to serve as a practical guideline for the adoption of the UN convention against Transnational Organized Crime directives in civil law jurisdictions. The same was made in 2009 with the the Model Provisions for Common Law Legal Systems on Money-Laundering, Terrorist Financing, Preventive Measures and the Proceeds of Crime[17].

In Portugal the evolution of the legal and institutional framework is mostly the result of the adoption of EU directives. Up until 1993, Money Laundering was not considered an

[16] United Nations Instruments and Other Relevant International Standards on Money-Laundering and Terrorist Financing;
[17] UNDOC, Commonwealth Secretariat, IMF (2009);

offence in the Portuguese judicial system. It only became so with Decree Law nr.15/93 of January the 22nd. This decree law came two years after Directive 91/308/EEC "on the prevention of the use of the Financial System for the purpose of Money Laundering" (UIF), which was approved by the Council of the European Economic Community in 1991. Still in 1993, the Portuguese Parliament passed Decree Law nr.313/93 which "created a number of obligations for all financial institutions (either bank or non-bank financial institutions, including currency exchange businesses - "bureaux de change") and for offshore branches", hence, enlarging the number of subject entities in the Portuguese system. **DNFBPs** and their **duties** were defined later in 1995 with Decree Law nr.325/95. Portugal deepened its international cooperation ties by passing the Decree law nr.144/99 on August the 31st to provide "mutual cooperation with the authorities of other countries in the fields of extradition, transfer of criminal cases and the execution of sentences (…), transfer of convicted persons and assistance in criminal matters, including the detection, seizure and confiscation of the proceeds of criminal activities"[18]. Finally, in 2008, Law nr.20/2008 of April the 21st further deepened the duties of all Subject Entities. However, as seen by the mutual evaluations undertaken in Portugal by the FATF, the state of compliance has remained static, with no effort being made in the set of key recommendations.

The FATF also evolved over time. It updated its recommendations in 1996 and in 2001. It included UN resolution 1737, drafted in the follows up of 9/11, in its mandate and issued new recommendations directed at particular sectors of the economy with the aim of incorporating the new, broader view o Money Laundering and specially, the Financing of Terrorism (+9). In 2012, all the recommendations were revised and compiled into just 40 recommendations. In 2006 a new milestone was reached in the UN General Assembly of September the 20th. Resolution 60/288 drafted by the UN Security Council, with high emphasis on preventing the financing of terrorist acts made the implementation of the 40+9 recommendations mandatory.

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[18] UIF (2016);

2.3 Literature Review of Money Laundering

This section serves to strengthen the notions of why Anti-ML/FT policies should be addressed, why there should be a focus on the 9 recommendations which I have mentioned over the course of the previous sections and why we should account for political stability when studying how well countries adopt the FATF recommendations directly linked to Politically Exposed Person; Beneficial Ownership; Transaction Reporting; and Independence of Investigation.

Money Laundering is a socially and economically relevant topic and it has been the widely discussed in many international organizations from 1989 onwards, when the FATF was created. The Money Laundering process is characterized by three stages: Placement; Layering; and Integration. The placement phase is when illegally earned money if placed into the financial system before undergoing a series of operations that serve to disguise the origins of such funds (Layering). When the money's origins are properly disguised, the money enters the "official" financial system and the authorities' loose tract. Precaution measures fall upon the first two stages, placement and layering, because is is then that criminals are more vulnerable and exposed (UIF, 2016).

The practice of Money Laundering is usually tied to the traffic of illegal substances and materials or to economic crime, namely, White Collar Crime. Economic crime is defined as crime which does not involve the physical destruction of something, rather it results in a financial loss and usually tied to the "*criminal activities of Fraud, Abuse of Power, Corruption and Market Manipulation*" (UIF, 2016). Quoting the FBI, "Money Laundering can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows"[19]. Economic crime and Money Laundering have dire consequences to society mainly reflected in two overlapping spheres:

- *The Economic Sphere:* Perpetuates inefficiency, creates large losses and has high welfare costs born by tax payers; Is bad for business, competition and innovation;

[19] FBI (2016);

- *The Social Sphere:* Increases insecurity and violence if associated with illicit substances. It Hinders social mobility. Creates a legitimacy problem for the country's institutions and rule of law, which have medium to long term effects in the stability of regimes and societies, contributing to an overall decay of moral standards. This last remark was studied by Hassomer (2002), who drew a conclusive correlation between the loss of civil liberties and the persistence of Money Laundering.

By nature, Money Laundering cannot be easily measured. What is more easily measured is the size of the shadow economy. Earnings which are not taxed, need to be laundered. So the discrepancy between the estimates for the shadow economy and the real economy is the amount that is laundered. Official estimates from international organizations vary wildly. The FBI estimates that Money Laundering related transfers in the United States alone total 300$ Billion a year. The former also states that transactions are mostly undertaken by "third party facilitators", namely Lawyers and Accountants[20]. Hence the need for stronger control over Legal Professionals. Michael Cambessus, Managing Director of the IMF (1987-2000) stated in 1998 that Money Laundering was estimated to be between 2 to 5% of the world's GDP (IMF 1998). In 2009, the National Security Agency (UK) published in its estimate for the global value of Money Laundering at around $1.6 billion US, circa 2.7% of the world GDP[21].

In academia two methods of estimation exist to estimate the amounts of money laundered: Macro and Microeconomic estimates. Macroeconomic estimates draw great emphasis on the work of Tanzi (1980), which compares *estimated* demand for cash with *actual* demand for cash in a given economy. Tanzi's procedure paved the way for currency based estimates of Money Laundering. Currency estimates of Money Laundering make use of the difference between estimated and actual demand for currency. Schneider and Buehn (2016), who conducted an efficiency assessment of Macro versus Micro estimates of the shadow economy, make a concise summary of Tanzi's variables: Discrepancy between National Expenditure and Income statistics; Official versus Actual Labour; Transaction Volume versus GDP; Demand for Money versus estimated Demand for Money. The last indicator is computed using information on tax rates, wages, salaries, personal income, interest rates and real per

[20] FBI 24th October, 2016;
[21] NSA, 2017;

capita income. The methodology first proposed by Tanzi was adopted by Schneider and Enste (2000) and Schneider (2002) to estimate the percentage size of the shadow economy in 22 countries[22]. Estimates vary between 7% and 16%, which by far exceeds the 2-5% estimate of the IMF.

Microeconomic estimates rely on surveys, tax auditing and compliance procedures. Schneider and Enste (2000) state that this estimation method suffers from selection bias, small sample properties and greatly underestimates the size of the shadow economy because it relies on willing disclosure of potentially compromising information. In Portugal, the FIU periodically conducts such surveys.

Regardless of estimation method, the issue of Money Laundering is not negligible. As mentioned before, Money Laundering usually arises from some underlying illegal activity, a predicate offence. Usually drug traffic and white collar crime. White collar crime tends to implicate: Failure of auditors and other regulators to identify or report suspicious activities; Complex and opaque legal arrangements between different legal entities (usually devised by qualified Legal Professionals) and; Unclear information about the Beneficial Ownership of such entities (Trusts, Non-Profit Organizations, Foundations and Off-shores). Four key failures which the regulators systematically try to overcome and which are accurately captured in the set of 9 recommendations in the Key Set: **Politically Exposed Person; Transaction Reporting; Beneficial Ownership; Independence of Investigation.**

Full compliance with these recommendations above would mean that: PEPs would be properly controlled; Criminal investigations would be independently conducted; Legal Professionals would report whenever they work with legal persons that operate in suspicious jurisdictions; Banks would inform whenever they make significant transfers to suspicious or dangerous jurisdictions and there would be severe penalties in place to punish non compliant behaviour. Some of these duties are performed, but not with the transparency and effectiveness required, as evidenced by the enormous costs that Portuguese tax payers have borne in recent banking failures. It is fair to conclude that legislation regarding surveillance, compliance and reporting is not sufficient, and even countries with high level of compliance with FATF standards have found themselves at hands with very costly cases of white collar crime.

[22] see Table 3;

In Portugal, white collar crime has been mentioned to play a part in the failure of the following banks, with the following costs to the tax payers: ***BPN Banco Português de Negócios****:* Between 5-9 € Billion, made of individual tranches which totalled 3,237.5 € Million as of 2014, an initial amount of 1,800 € Million in 2010 and a compromise to cover toxic assets adding up to 4,000 € Million[23] (*in Jornal de Negócios, 12th June 2017*); ***BES Banco Espírito Santo:*** 3,890 € Million directly attributed to the state[24]; ***Banif:*** 2,189 € Million with 1,700 € Million directly attributed to the State [25]. These numbers add to roughly 15€ Billion, circa 8% of the country's GDP, not considering interest on the amounts injected into the financial system, which the government borrowed.

Abroad, other highly publicized cases of white collar crime include Madoff's scheme, which inflicted losses of 1$ Billion for HSBC, 1,4$ Billion for Fortis Bank, 835$ Million for Pioneer Investments, 404$ Million for BBVA, 3,1 $Billion for Santander and 350$ Million for BNP Paribas, excluding all other investors (UIF, 2016). Societé General in France was severely damaged by a loss of 7,1$ Billion due to fraudulent practices [26]. Enron in the US reported revenues of 100,789.0$ Million in 2000 before it filled for bankruptcy in 2001[27], taking with it employee pension plans and insurance schemes. In Brazil, the "Lava Jato" scandal has exposed the corrosive links between politicians from all major parties with business men in exchange for state contracts. The scandal has resulted in the impeachment of President Dilma Rousseff and the recent conviction of former President Lula da Silva. The fact that politicians from all major parties in Brazil were involved in private deals with business man in exchange for state contracts is pure evidence that white collar crime and corruption go together, free from any ideological bias[28]. Also, some regions face serious challenges to development due to unlawful appropriation of public funds by opaque legal structures. For instance, upon Yasser Arafat's death, it surfaced that his wife Zuha Arafat was in control of a portfolio worth 1$ Billion USD, with interest in different industries around the world. This money was channelled from international relief efforts to accounts in the Cayman Islands [29]. Palestine is one of many cases where Money Laundering damages the general welfare. The examples serve to highlight the

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[23] Jornal de Negócios, 12th June 2017;
[24] Público, 6th April, 2017;
[25] Expresso, 21st, December, 2015;
[26] UIF (2016);
[27] Fortune, 2001;
[28] Transparency International, 2017;
[29] CBS 2003 Nov 7th, November, 2003;

need for stronger reporting duties, specially of Legal Professionals, given that one common thread between most cases here mentioned is the application of complex legal entities to make use of legal loop-holes.

There has been a wave of regulation since the financial crisis of 2007. The implementation of new Anti Money Laundering regulations is a costly affair. Hubli and Geiger (2004) estimated the cost AML measures to total 45% of overall compliance costs in banks alone, for the Swiss economy, with similar costs for other high income countries. An online survey on the costs and benefits of AML regulation in the financial industry in the United Kingdom showed that a significant percentage of the 386 participants believes that Anti Money Laundering has only marginally increased the reputation of the sector; Is expensive but does not significantly damage business and has not reduced the underlying predicate offenses (City Research Series). Some countries receive very large numbers of SARs[30] and so far, there *has not* been a link between, SARs received and the reduction in the predicate offenses, Cuellar (2003). This is fundamentally due to the inexistence of centralized data on SARs and Convictions, which have so far made impossible a full effectiveness analysis of the FATF recommendations. The absence of data on convictions has nonetheless failed to stop investigators from focusing on financial regulation. Research has focused on the need to regulate certain areas of business, which go hand in hand with the deficiencies detected in the adoption of the FATF recommendations detected in the Mutual Evaluations.

These deficiencies show themselves, as mentioned before, in the low levels of compliance with a Key Set of recommendations which capture issues that deserve better addressing: **Politically Exposed Persons, Beneficial Ownership, Transaction Reporting** and **Independence of Investigation**. The low compliance scores with these measures is not unnoticed in academia. Naheem (2015) detected an overall lack of regulation in the areas of Beneficial Ownership, Costumer Due Diligence Procedures, Transparency of Transactions and the proper accountability of the companies involved in cross border operations, with emphasis on low income countries. These are important issues as stronger identification duties for counterparties in unusual transactions and proper identification of beneficial owners are necessary for a healthier financial system (Balleyguier, 2003). The argument is reinforced by Ping He (2006) who identifies Lawyers, Notaries and Accountants as facilitators of Money

[30] See Tables 4, 5 and 6;

Laundering practices through companies. Of course the issue of how Legal Professionals are to be regulated is not clear, as professional secrecy is a *sine qua non* condition of many activities. Nevertheless, and given that nowadays Money Laundering involves Lawyers, Accountants and Notaries a system must be devised to ensure proper regulation. One solution proposed by Ping He (2003) is the possibility to separate the professional activities of Legal Professionals between justice proceedings, which should allow for secrecy, and non-justice proceedings, namely company law activities and financial services to companies, which should not allow any secrecy. Ruiz (2004) goes even further suggesting that, not only should there be a separation between justice and non-justice proceedings, there should also be strong penalties in place for deviant lawyers who give advice on, and facilitate, Money Laundering. The issue is complicated but leaves clear the need to properly clarify the duties of Legal Professionals. The FATF fails to properly define them, and most countries fail to adopt them.

The issue of adoption of FATF recommendations is also complicated. The 40 FATF recommendations cover many different topics and some countries, namely low income countries and small island nations, do not have the proper human and financial resources to implement so many regulations, as these need to be deviated from more pressing matters. (Shehu, 2010). This type of countries are also the countries where the strength of the institutions is weaker, and where the strength of the informal sector of the economy prevails over the regulated sectors, making the whole regulation process more difficult (Shehu, 2010). These countries are however the ones that could benefit the most from proper anti Money Laundering systems. Not surprisingly also is the fact that low income countries and small island nations have shown decreasing or stagnant levels of compliance with the FATF 40 recommendations since 2003 (Johnson, 2008) and that most recommendations were only superficially adopted. This suggests a certain impracticality of the present framework suggested by the FATF to prevent Money Laundering and the Financing of Terrorism. In fact, it was noted by Tang *et.al* (2010) that compliance is stagnant after a light adoption of the FATF recommendations, and that therefore, there should be less recommendations. Also in favour of less recommendations are Jensen and Cheong-Ann (2011), stressing the need to provide case specific regulation directed towards particular issues in low income countries and small island nations.

Of Course, the FATF recommendations require political will to be put into practice. The type of political will to implement anti Money Laundering legislation is highly dependent on the type of government a country has and its attitude towards corruption. Sung (2004) studies the relationship between corruption and democracy and concluded that it is not linear, as in, democracy decreases corruption. In fact, newly democratized countries have higher corruption than decades old democracies. This is due to instability, as highlighted by Campante et.al (2009) whose article on political instability and corruption found a link between rent seeking behaviour and instability. Be it understood that instability refers to the length of political mandates. If politicians stay in office for shorter periods of time, they might be more tempted to seek rents and avoid adopting legislation that hinders their ability to do so. It is in this line of thought that I have included the variable Political Mandates in my thesis. This variable is a count of how many governments a country has had in the past 40 years (1976-2016). I expect to find that more mandates have a negative impact on compliance with the FATF recommendations, and specially, with the Key Set of Recommendations, which have a political side to them. Not only because the regulate very specific fields, but also because those who have the power pass them into law are among the groups that have more to loose.

The sample for which data on SARs was available consists of the following 23 countries: Australia, The Bahamas, Bermuda, Belgium, British Virgin Islands, Cayman Islands, Chile, Estonia, France, Germany, India, Italy, Japan, Rep. of Korea, Latvia, Luxembourg, Malta, Portugal, Qatar, Sri Lanka, Turkey and the United Kingdom. Albeit relatively small, the sample includes a diverse set of economies and legal systems. It encompasses developed and developing countries, civil and common law jurisdictions, democracies with different maturities, constitutional monarchies and different levels of public perception of corruption.

3. Methodology

The methodology section is divided into 3 parts. In the first part there is a replication of the procedures of Yepes (2011) with a sample of 111 countries and observations for the period 2004-2008. This is followed by a second replication with a sample of 23 countries and a third part where the same methodology is applied to new independent variables with the introduction of a new explanatory variable, Political Mandates. Parts 2 and 3 refer to the period 2006-2015.

3.1 Data

During the evaluations that the FATF conducts at the country level, the degree of compliance with the recommendations is classified in the following categories with the following scores: N/A (Non-Applicable) for which there is no classification; NC (Non Compliant) with a score of 0; PC (Partially Compliant) with a score of 0,33; LC (Largely Compliant) with a score of 0.66 and C (Compliant) with a score of 1. As mentioned in the section "The FATF and the 40 Recommendations", the recommendations are divided according to specific categories. Each category[31] has a different number of recommendations. The sum of all the recommendations in every category is 40.

FATF Compliance index = Legal Measures + Institutional Measures + Financial Institutions Prevention + DNFBPs Prevention + Informal Sector Prevention + Entity Transparency + International Cooperation

The index is computed as the sum of the individual compliance scores of each recommendation over the overall 40, for the total FATF 40 Index or over the total number of recommendations in each category of the FATF index components. The Key Index is computed in the same way: it is the sum of the compliance score with the 9 Key Recommendations over 9.

The dependent variables in parts 1 and 2 are the FATF40 Index and the individual components of the FATF recommendations. In part3 the dependent variables are the Key Index of the 9 recommendations, the 9 recommendations themselves and the information pertaining to Suspicious Activity Reports. In Part 3 the variable Political Mandates is included to help

[31] see the summary of the FATF 40 Recommendations in the Appendix;

explain the compliance scores with the FATF40 Index and the Key Index. The FATF40 Index and the Key Index will then become independent variables to explain the number of SARs received, the number of Disseminated SARs and the number of SARs submitted by Legal Professionals.

The dependent variables in parts 1 and 2 are indexes, which range from 0 (no compliance) to 100 (full compliance). They correspond to the compliance scores of: Legal Sector Prevention Measures, Institutional Prevention Measures, Financial Institutions Prevention Measures; Informal Sector Prevention Measures; Entity Transparency Enhancing Measures; International Cooperation Measures and Anti-Money Laundering and Criminalization of Terrorist Financing Measures. Table 9 displays the summary statistics for part 1 and Table 13 for parts 2 and 3.

In part 1 with a sample of 111 countries, compliance with the FATF40 Index in the period 2004-2008 is 41.5%. The categories that attained a higher compliance score as of 2007 were International Cooperation (57.6%) and Institutional Prevention Measures (52.3%). The worst performing category are DNFBPs Prevention Measures (13.3%). All Legal Professionals are included in the DNFBPs section. In comparison with the remaining categories, DNFBPs remain poorly compliant. Parts 2 and 3 have a sample of 23 diverse countries with 230 observations for the period 2006-2015. With a reduced sample, the overall compliance with the FATF40 Index is 49%, roughly half of the proposed regime as of 2007. The highest ranking scores are International Cooperation Measures (69%), Institutional Prevention Measures (63.7%) and Informal Sector Prevention Measures (61.54%). The category that scores the lowest is still DNFBPs prevention Measures (17%). Compliance with the Key Set of 9 recommendations is 31.4%, significantly lower than the overall FATF40 Index (49%).

Part 3 also has the dependent variables referring to SARs. The number of SARs received and Disseminated varies greatly among the sample of 23 countries[32] for the period 2006-2015. The country with more SARs is the United Kingdom with 257.350 and the lowest belongs to Malta with just 120 on average. The countries that disseminate more SARs as percentage of SARs received are Japan (71.9%) and Italy (54.04%) while the country with less is, surprisingly, the United Kingdom (0.065%). SARs reported by Legal Professionals are highest in the British Virgin Islands (61.18%) and lowest in Belgium (0.02%).

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[32] See Tables 4 to 7;

The independent variables capture cultural, institutional and socio-economic factors. The variables that capture cultural and institutional factors are:

Criminalization of ML/FT (CML) comprises three issues: If the country has criminalized the provision of funds for terrorism (0;1); If the country has criminalized Money Laundering from drugs (0;1) and non drugs related activities (0;1). This variable ranges from 0 to 3. With 2.6 and 2.8 for the 111 and 23 country sample, countries on average seem to adopt these three issues.

Regulatory Quality (RQ) is compendium of variables that reflect how well a government is able to enact legislation that helps to promote private sector development. The variable ranges from 0 to 100, with 100 being the best classification possible for any regulatory framework and 0 the worst. The best performing countries are Australia, Germany, Luxembourg and the UK with scores above 90%. The worst performing countries are India, Lebanon, Sri Lanka and Turkey with scores between 50% and 60%. Portugal has average scores of 70-80%. The average in each sample if 63% and 77%.

Control for Corruption (CO) is a measure of the power of the state and institutions to prevent their use for private gain. A higher control for corruption would theoretically promote a more transparent environment. CO ranges from 0 to 100. The best and worst classified countries are the same as in the RQ. This variable is positively correlated with the FATF compliance index. The 111 country sample has lower CO (47%) as the 23 country sample (67%) on average.

Membership in the FATF (FATF) is a dummy variable which takes the value 1 if the country is a member of the FATF and 0 otherwise.

United Nations International Drug Index (UNDIX) is an index published by the United Nations which evaluates how much a country is involved in the international drug problem by tacking into account crime, consumption, quantities, legislation and resources spent on the drug problem. The index bottoms at 0 but has no ceiling as it complies information by aggregation. India is the highest scoring country in the sample of 23 with 52.67 and Japan the lowest with 5.06.

Year of Assessment 2007 (YoA2007) is a dummy that takes the value 1 if the country underwent a Mutual Evaluation by the FATF in 2007, and 0 if not. Counter intuitively, the variable is negatively correlated with FATF compliance in the small sample but positive in the 23 country sample.

The Socioeconomic factors are represented by the logarithm of GDP per capita in US$ (LogGDP); Monetary Base 2 as percentage of GDP (M2); Trade Openness (TO); Net Interest Margin (NIM); Foreign Direct Investment as percentage of GDP (FDP); Banking Concentration (BC) and RNFSE (Ratio of Net Financial Service Exports).

Logarithm of GDP per capita in US$ (LogGDP). This proxies social and economic development. It is positively correlated with compliance with the FATF40 Index. In Yepes (2011), the sample was re-organized between high and low income countries, EU and non EU countries. It was found that higher income countries and EU countries had better compliance scores than the other groups. The groups with the lowest scores were Sub-Saharan and East Asian countries[33]. Because the target sample consists of 23 very diverse countries, it is not possible to aggregate then in such categories. This same pattern could be found for most of the socio-economic variables.

Monetary Base 2 as percentage of GDP (M2) is a measure of financial depth and complexity of an economy. The IMF's definition of M2 is "the sum of currency outside banks; demand deposits other than those of the central government; the time, savings, and foreign currency deposits of resident sectors other than the central government; bank and traveler's checks; and other securities such as certificates of deposit and commercial paper[34]. Of the 23 countries, the lowest percentage belongs to Sri Lanka with and average of circa 30% and the highest to Luxembourg with circa 400%.

Trade Openness (TO) is the total amount of trade as percentage of GDP, meaning, total volume of imports and exports of any kind (financial and non financial) over GDP. The most open economies in the sample are Belgium and Germany. The less open economies are The

[33] Yepes (2011);
[34] (International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates;

Bahamas, The British Virgin Islands, Bermuda, The Cayman Islands and Malta (off-shore centres).

Net Interest Margin (NIM) is a measure on how the banks generate revenue (interest) from interest generating assets. This variable is negatively correlated with the FATF compliance index. The countries with the highest NIMs are Chile and Turkey (circa 4%) and Sri Lanka (circa 5%). The variable is negatively correlated with the FATF40 Index.

Foreign Direct Investment (FDP) is a measure of net inflows of capital into an economy as percentage of its GDP. The Variable is positively correlated with the FATF40 Index score. It averages 12.3% for the 23 countries with the highest values found among the off shore centres.

Ratio of Net Service Financial Exports (RNFSE) was introduced to narrow the definition provided by Foreign Direct Investment. This variable was estimated according to the procedure proposed by Zoromé (2007) and assesses if a country's exports of the financial sector services is incommensurably large in proportion with its economy. It is a numerical definition of an off-shore. RNFSE is poorly correlated with FATF compliance. It ranges from 0% to 98% in Bermuda's case. This ratio can be negative for countries with negative net financial service exports.

Banking Concentration (BC) is a measure of how the financial sector is concentrated. It is the ratio of the three largest balance sheets of banks over the total banking balance sheet of a given country. The negative correlation between banking concentration and FATF compliance suggest that concentration decreases compliance.

Political Mandates (Mandates) is a proxy for political stability and is the count of cabinet changes in the period 1976-2016. The country with less cabinet changes is Qatar, with just 5. The country with more cabinet changes is South Korea, with 56. The average number of cabinets in the 40-year period is 18 (roughly one mandate every two years).

Most Cultural and Institutional variables are positively correlated with FATF compliance scores in the 111 and 23 country sample except for FATF Membership and

UNDIX, which become negatively correlated in the reduced sample.[35] The socio-economic variables LogGDP, FDP, TO and RNFSE are positively correlated with compliance in the 111 country sample but RNFSE becomes negatively correlated in the small sample. NIM is always negatively correlated with compliance.

3.2 Part 1-Replication

In part 1, the FATF compliance index and its components will be regressed in a multivariate cross-country regression in the following specification:

$$\textit{FATF Compliance Index}^{36} = \beta_0 + \beta_1\, CML_i + \beta_2\, RQ_i + \beta_3\, CO_i + \beta_4 FATF + \beta_5\, UNDIX_i + \beta_6\, M2_i + \beta_7\, TO_i + \beta_8\, NIM_i + \beta_9\, FDP_i + \beta_{10} YOA2007_i^{37} + \varepsilon_i$$

This part refers to the period 2004-2008 and uses 111 countries. There are 4 specifications to explain compliance with the FATF40 Index that use different independent variables (see Table 11). Of the cultural and institutional variables, only CML, RQ and CO yield significant estimates for their impact on compliance with the FATF40 index over the three specifications. LogGDP has a significant and positive impact on compliance for specification 1.

In Table 12 are the results for the regressions of the FATF Index components on the full set of of explanatory variables following the equation:

$$\textit{FATF Index Component} = \beta_1\, LogGDP + \beta_2 CML_i + \beta_3 RQ_i + \beta_4 CO_i + \beta_5 FATF + \beta_6\, UNDIX_i + \beta_7\, M2_i + \beta_8 TO_i + \beta_9 NIM_i + \beta_{10} FDP_i + \beta_{10}\, YOA2007_i + \varepsilon_i$$

The results do not suggest any prevalence of cultural and institutional factors over socio-economic factors and *vice versa.* Both groups of variables produce significant coefficients across the regressions on the individual components of the FATF index. Cultural and Institutional variables tend to have a positive impact on compliance, as well as LogGDP and

[35] In the reduced sample of 23 countries almost all are FATF members;

[36] All regressions were estimated with Heteroskedastic Robust Standard Errors; This specification is subject to 3 versions;

[37] This specification will suffer some changes due to robustness and data limitations (Banking Concentration is introduced to replace Net Interest Margin; RNFSE, Ratio of Net Financial Service Exports is introduced to replace, Monetary Base 2);

FDP. NIM has a negative impact suggesting that higher net interest margins have an adverse impact on compliance.

The results from this replication are slightly, but not fundamentally different, from the those obtained in Yepes (2011). This is due to differences in the sample of countries. I have a larger sample than Yepes, which only has 84 observations, because I introduced new countries which were relevant for my SARs analysis and I have more complete data sets for more countries than the original sample because of improvements in data in 2017 relative to 2011. The main difference is that I obtain slightly smaller coefficients. Despite that, the pattern of statistical significance and positive/negative signs remains largely unchanged. The correlations are all mostly the same with the exception of the correlation between Banking Concentration and the FATF40 Index[38].

3.3 Part 2- Replication with a reduced Sample

Part 2 refers to the period 2006-2015. The same procedure as in part 1 was applied. In Table 15 are the results for 3 specifications of independent variables on the FATF40 Index[39]. Again, the cultural and institutional variables CML, RQ and CO are significant across specifications. Reducing the sample to 23 countries makes the variable YoA2007 significant with an estimated positive impact on compliance, suggesting that the FATF Mutual Evaluations have a positive impact on compliance. This is a strong suggestion in favour of the power of cultural and institutional variables over compliance.

In the socio-economic domain, LogGDP still has a significant and positive impact. The variables FDP, NIM and RNFSE all have significant statistical impacts on compliance. However, the variables TO and M2 fail to produce significant estimates.

Table 16 displays the results for the regressions of the individual FATF index components on the full set of explanatory variables. There is a very large increase in the number of statistically significant coefficients across all equations from cultural, institutional and socio—economic variables. All the adjusted R^2 for the equations in Part 2 are superior to the adjusted R^2 in part 1.

[38] In Yepes (2011) the correlation is positive and in my sample the correlation is negative;

[39] Variable Banking Concentration was not available for several countries in the sample;

3.4 Part 3- Key Index and SARs Analysis

This section is the core of the analysis. Table 17 shows the results for the same procedure as in part 1 and 2 but with a different dependent variable. Here the dependent variable is the Key Index. Specification 3 of table 17 has the highest adjusted R^2 with all coefficients, except for CML and CO (previously very solid), significant at conventional confidence levels. The variables RNFSE and UNDIX become significant in all specifications as opposed to the previous models. When the compliance score of each of the 9 recommendations is regressed on the full set of independent variables the evidence becomes clear that these cultural, institutional and socio-economic variables are significantly tied to how countries adopt the 9 Key recommendations[40]. The number of significant coefficients here far outnumbers the number of significant coefficients when the dependent variables were the FATF 40 Index and its individual components.

Table 19 shows how cultural, institutional and socio economic factors impact the overall FATF40 Index and the Key Index when the variable Political Mandates is introduced:

$$\textbf{\textit{Key Set Compliance Index}} = \beta_0 + \beta_1\, CML_i + \beta_2\, RQ_i + \beta_3\, CO_i + \beta_4 FATF + \beta_5 UNDIX_i + \beta_6 M2_i + \beta_7 TO_i + \beta_8\, NIM_i + \beta_9 FDP_i + \beta_{10} YoA2007_i + \beta_{11}\boldsymbol{Mandates_i} + \varepsilon_i$$

Political Mandates is significant at 99% confidence level for the regression on the Key Index, with an estimated negative impact and insignificant for the regression on the FATF40 Index. This suggests that, the FATF 40 index is too broad to be influenced by political stability and that the Key Index is heavily influenced by political stability, which greatly increases rent seeking behaviour, resulting in an overall lack of will to implement the 9 recommendations which target: **Politically Exposed Persons**, **Beneficial Ownership**, **Transaction Reporting** and **Independence of Investigation**.

In Table 20 we finally see the estimated impact of compliance with the FATF framework impacts SARs. I regress the three forms of SARs (Total Number of SARs; Disseminated SARs in % of Total and SARs by Legal Professionals) on the FATF40 Index and the Key Index. This a relevant step forward. In Yepes' words "the entire assessment apparatus (of the FATF framework) suffers from lack of data (…) for example on the

[40] see Table 18;

correlation between SARs, investigations and crimes (and the FATF recommendations)". I have manually collected data on SARs from 189 official reports and I am able to establish a link between the FATF framework and the first stages of criminal investigations. The reports, albeit similar in content, are far from being standardized. So far there has been no study on the impact of compliance with the FATF regime and Suspicious Activity Reports. The estimated impact of indexes on the 3 categories of SARs is statistically significant at 99% confidence level, with positive estimated impacts. The Key Index, which refers to the above mentioned, and crucial, issues, has a stronger estimated impact than the FATF40 Index. This reinforces the importance of full compliance with the key 9 recommendations I have isolated, which have low compliance scores across all countries and whose evidence suggests, have a practical impact on the initial stages of criminal investigations.

4. Findings

1) Compliance with the FATF recommendations is on average 49% out of 100% for the 23 countries in the sample versus 47% in the 116 country sample of Yepes (2011);
2) The recommendations with the lowest compliance scores target DNFBPs Prevention Measures (where Legal Professionals are included);
3) The regressions of the cultural and institutional and the socio-economic factors on the FATF40 Index and its components for the 23 country sample over the time period 2006-2015 in part 2 all have higher adjusted R^2 than their counterparts in part 1 with a 111 country sample over the period 2004-2008;
4) To proxy the impact of political instability on compliance across countries, the variable Political Mandates was introduced. The evidence shows that less mandates, i.e., more political stability, lead to higher compliance scores with the Key Recommendations. Political stability frees resources else spent on managing the political cycle in favour of constructive policies. Therefore, it fosters a healthier attitude, among other things, towards compliance. The fact that the variable Political Mandates is significant in explaining compliance with the Key Index at a 99% confidence level, but not significant in explaining compliance with the general FATF40 Index is evidence that the low compliance with the Key Set of regulations is, in part, a political phenomenon. When the variable Political Mandates is included, only GDP and NIM have any explanatory power on compliance, among all the socio-economic variables. The variables CML and

RQ are however very significant. Overall, compliance with the Key Set is more related to cultural and institutional factors than to socio-economic factors;

5) SARs, Disseminated SARs and SARs submitted by Legal Professionals are all statistically significantly related to the compliance scores with the FATF and the Key Index. There is a quantifiable link between the institutional framework suggested by the FATF and the practical side of Anti-Money Laundering and Terrorist Financing efforts;
6) Compliance with the Key Set of Recommendations seems to have a stronger practical impact on the number of SARs fillings, Disseminated SARs and SARs fillings by Legal Professionals than the FATF40 Index altogether. This reinforces the initial intuition that the recommendations included in the Key Set are more important in practical terms than the 40 recommendations. As such, the FATF recommendations and subsequent assessments should be devised on a case specific rather than on a one size fits all basis.

5. Caveats

The information on SARs was obtained from the Annual Reports of the FIUs of the 23 countries in the sample. Therefore, the sample was determined by the availability of information. Given that this availability is a product of the FIUs will to publish the reports, the sample is not random.

Some topics in the FATF regime regarding Money Laundering and Terrorist Financing are spread among more than one recommendation. This renders individual evaluation of compliance with the preventive measures on certain subject difficult to evaluate independently. As such, the compliance score can work only as a proxy in some cases.

Countries submit themselves willingly to the Mutual Evaluations of the FATF. This might cast some doubt on the validity of the YOA2007 variable, as it becomes fair to think that only countries who expect a good evaluation might submit themselves to one.

The Cultural and Institutional variables might prove to be inaccurate proxies for differences across countries. Most of these variables are indexes which compile into one number information on legislation, crime, the characteristics of such crimes and the legal attitude towards them. The FATF Compliance Index follows this approach as well.

The inexistence of a centralized data base for SARs and convictions renders impossible a full assessment of the efficacy of the FATF 40 recommendations.

The inexistence of a data base on the direct costs of implementing the FATF 40 recommendations render impossible a full cost benefit analysis.

6. Executive Summary

The set of cultural, institutional and socio-economic variables provide a good fit for all the regressions on the dependent variables. The dependent variables under analysis were the FATF compliance index with the 40 FATF recommendations, the individual thematic components of the FATF recommendations (Legal Measures, Institutional Measures, Prevention in Financial Institutions Measure, Prevention in the Informal Sector Measures, Entity Transparency Measures, International Cooperation Measures and Anti-Money Laundering and Criminalization of Terrorist Financing), the compliance index with the 9 recommendations I have isolated and the 9 recommendations themselves (recommendations 10, 12, 14, 16, 20, 22, 23, 24 and 28). These 9 recommendations cover the topics of: **Politically Exposed Persons, Beneficial Ownership, Transaction Reporting** and **Independence of Investigation.**

When I regress the set of cultural, institutional and socio-economic variables on the compliance index of 9 recommendations, and the 9 recommendations individually, I find more statistically significant coefficients than when the dependent variables are the FATF compliance index and the thematic components. The evidence suggests that the explanatory variables intended to proxy cultural, institutional and socio-economic differences across countries, capture better the differences in attitude towards Politically Exposed Persons, Beneficial Ownership, Transaction Reporting and Independence of Investigation than the difference in attitude with the vast number of topics included in the FATF 40 recommendations.

The new variable, Political Mandates, which is a count of the number of cabinet changes between 1976-2016, is significant in explaining compliance with the restricted set of 9 recommendations, but not with the total set of 40 recommendations. The estimated impact on compliance with the 9 recommendations was negative, reinforcing the notion that political stability is paramount to the proper development of institutional and legal frameworks to fight Money Laundering and the Financing of Terrorism.

The evidence suggests that compliance with both indexes (the total index of 40 recommendations, and the restricted index of 9 recommendations), have significant positive estimated impacts on the number of Suspicious Activity Reports, Disseminated Suspicious Activity Reports for criminal investigation, and Suspicious Activity Reports submitted by Legal Professionals. The estimated impact of the of the 9 recommendations on the number of reports was greater than the impact of the 40 recommendations. The findings strengthen the argument that some recommendations are more important than others, in practical terms, and that the FATF presently covers too many topics at once, hence justifying calls for case specific regulations instead of the present uniform approach to the fight against Money Laundering and Terrorist Financing. In other words, these 9 recommendations seem to have a practical impact on the workings of the Criminal Police, namely in the early stages of criminal investigations suggesting that a more focalized approach to compliance could provide efficiency gains.

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8. Appendix 1

The FATF 40 Recommendations

New/Old Number		
A – AML/CFT POLICIES AND COORDINATION		
1	-	Assessing risks & applying a risk-based approach
2	R.31	National cooperation and coordination
B – MONEY LAUNDERING AND CONFISCATION		
3	R.1 & R.2	Money Laundering offence
4	R.3	Confiscation and provisional measures
C – TERRORIST FINANCING AND FINANCING OF PROLIFERATION		
5	SRII	Terrorist financing offence
6	SRIII	Targeted financial sanctions related to terrorism & terrorist financing
7		Targeted financial sanctions related to proliferation
8	SRVIII	Non-profit organizations
D – PREVENTIVE MEASURES		
9	R.4	Financial institution secrecy laws
Customer due diligence and record keeping		
10	R.5	Customer due diligence
11	R.10	Record keeping
Additional measures for specific customers and activities		
12	R.6	Politically exposed persons
13	R.7	Correspondent banking
14	SRVI	Money or value transfer services
15	R.8	New technologies
16	SRVII	Wire transfers
Reliance, Controls and Financial Groups		
17	R.9	Reliance on third parties
18	R.15 & R.22	Internal controls and foreign branches and subsidiaries
19	R.21	Higher-risk countries
Reporting of suspicious transactions		
20	R.13 & SRIV	Reporting of suspicious transactions
21	R.14	Tipping-off and confidentiality
Designated non-financial Businesses and Professions (DNFBPs)		
22	R.12	DNFBPs: Customer due diligence
23	R.16	DNFBPs: Other measures
E – TRANSPARENCY AND BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND ARRANGEMENTS		
24	R.33	Transparency and beneficial ownership of legal persons

25	R.34	Transparency and beneficial ownership of legal arrangements
F – POWERS AND RESPONSIBILITIES OF COMPETENT AUTHORITIES AND OTHER INSTITUTIONAL		
		Regulation and Supervision
26	R.23	Regulation and supervision of financial institutions
27	R.29	Powers of supervisors
28	R.24	Regulation and supervision of DNFBPs
		Operational and Law Enforcement
29	R.26	Financial intelligence units
30	R.27	Responsibilities of law enforcement and investigative authorities
31	R.28	Powers of law enforcement and investigative authorities
32	SRIX	Cash couriers
		General Requirements
33	R.32	Statistics
34	R.25	Guidance and feedback
		Sanctions
35	R.17	Sanctions
G – INTERNATIONAL COOPERATION		
36	R.35 & SRI	International instruments
37	R.36 & SRV	Mutual legal assistance
38	R.38	Mutual legal assistance: freezing and confiscation
39	R.39	Extradition
40	R.40	Other forms of international cooperation

Source: FATF 40 Recommendations; pp.4-5;
1. The 'old number' column refers to the corresponding 2003 FATF Recommendation.
Version as adopted on 15 February 2012.

9. Appendix 2

Key Set of Recommendations: Integral text from the FATF 40 Recommendations

Recommendation 10. Customer due diligence *

Financial institutions should be prohibited from keeping anonymous accounts or accounts in obviously fictitious names. Financial institutions should be required to undertake customer due diligence (CDD) measures when:
(i) establishing business relations; (ii) carrying out occasional transactions: (i) above the applicable designated threshold (USD/EUR 15,000); or (ii) that are wire transfers in the circumstances covered by the Interpretive Note to Recommendation 16; (iii) there is a suspicion of Money Laundering or terrorist financing; or
(iv) the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data. The principle that financial institutions should conduct CDD should be set out in law. Each country may determine how it imposes specific CDD obligations, either through law or enforceable means. The CDD measures to be taken are as follows: (a) Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information. (b) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner, such that the financial institution is satisfied that it knows who the beneficial owner is. For legal persons and arrangements this should include financial institutions understanding the ownership and control structure of the customer.

(c) Understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship. (d) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds. Financial institutions should be required to apply each of the CDD measures under (a) to (d) above, but should determine the extent of such measures using a risk-based approach (RBA) in accordance with the Interpretive Notes to this Recommendation and to Recommendation 1. Financial institutions should be required to verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or conducting transactions for occasional customers. Countries may permit financial institutions to complete the verification as soon as reasonably practicable following the establishment of the relationship, where the Money Laundering and terrorist financing risks are effectively managed and where this is essential not to interrupt the normal conduct of business. Where the financial institution is unable to comply with the applicable requirements under paragraphs (a) to (d) above (subject to appropriate modification of the extent of the measures on a risk-based approach), it should be required not to open the account, commence business relations or perform the transaction; or should be required to terminate the business relationship; and should consider making a suspicious transactions report in relation to the customer. These requirements should apply to all new customers, although financial institutions should also apply this Recommendation to existing customers on the basis of materiality and risk, and should conduct due diligence on such existing relationships at appropriate times.

Recommendation 12. Politically exposed persons

Financial institutions should be required, in relation to foreign politically exposed persons (PEPs) (whether as customer or beneficial owner), in addition to performing normal customer due diligence measures, to:

(a) have appropriate risk-management systems to determine whether the customer or the beneficial owner is a politically exposed person; (b) obtain senior management approval for establishing (or continuing, for existing customers) such business relationships; (c) take reasonable measures to establish the source of wealth and source of funds; and (d) conduct enhanced ongoing monitoring of the business relationship.

Financial institutions should be required to take reasonable measures to determine whether a customer or beneficial owner is a domestic PEP or a person who is or has been entrusted with a prominent function by an international organisation. In cases of a higher risk business relationship with such persons, financial institutions should be required to apply the measures referred to in paragraphs (b), (c) and (d).

The requirements for all types of PEP should also apply to family members or close associates of such PEPs.

Recommendation 14. Money or value transfer services

Countries should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTS) are licensed or registered, and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations. Countries should take action to identify natural or legal persons that carry out MVTS without a license or registration, and to apply appropriate sanctions. Any natural or legal person working as an agent should also be licensed or registered by a competent authority, or the MVTS provider should maintain a current list of its agents accessible by competent authorities in the countries in which the MVTS provider and its agents operate. Countries should take measures to ensure that MVTS providers that use agents include them in their AML/CFT programmes and monitor them for compliance with these programes.

Recommendation 16. Wire transfers

Countries should ensure that financial institutions include required and accurate originator information, and required beneficiary information, on wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain. Countries should ensure that financial institutions monitor wire transfers for the purpose of detecting those which lack required originator and/or beneficiary information, and take appropriate measures. Countries should ensure that, in the context of processing wire transfers, financial institutions take freezing action and should prohibit conducting transactions with designated persons and entities, as per the obligations set out in the relevant United Nations Security Council resolutions, such as resolution 1267 (1999) and its successor resolutions, and resolution 1373(2001), relating to the prevention and suppression of terrorism and terrorist financing.

Recommendation 20. Reporting of suspicious transactions
If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, by law, to report promptly its suspicions to the financial intelligence unit (FIU).

Recommendation 22. DNFBPs: customer due diligence
The customer due diligence and record-keeping requirements set out in Recommendations 10, 11, 12, 15, and 17, apply to designated non-financial businesses and professions (DNFBPs) in the following situations:
(a) Casinos – when customers engage in financial transactions equal to or above the applicable designated threshold. (b) Real estate agents – when they are involved in transactions for their client concerning the buying and selling of real estate. (c) Dealers in precious metals and dealers in precious stones – when they engage in any cash transaction with a customer equal to or above the applicable designated threshold.
(d) Lawyers, notaries, other independent Legal Professionals and accountants – when they prepare for or carry out transactions for their client concerning the following activities: buying and selling of real estate; managing of client money, securities or other assets; management of bank, savings or securities accounts; organisation of contributions for the creation, operation or management of companies; creation, operation or management of legal persons or arrangements, and buying and selling of business entities. (e) Trust and company service providers – when they prepare for or carry out transactions for a client concerning the following activities: acting as a formation agent of legal persons; acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons; providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; acting as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another form of legal arrangement; acting as (or arranging for another person to act as) a nominee shareholder for another person.

Recommendation 23. DNFBPs: Other measures
The requirements set out in Recommendations 18 to 21 apply to all designated non-financial businesses and professions, subject to the following qualifications: (a) Lawyers, notaries, other independent Legal Professionals and accountants should be required to report suspicious transactions when, on behalf of or for a client, they engage in a financial transaction in relation to the activities described in paragraph (d) of Recommendation 22. Countries are strongly encouraged to extend the reporting requirement to the rest of the professional activities of accountants, including auditing. (b) Dealers in precious metals and dealers in precious stones should be required to report suspicious transactions when they engage in any cash transaction with a customer equal to or above the applicable designated threshold. (c) Trust and company service providers should be required to report suspicious transactions for a client when, on behalf of or for a client, they engage in a transaction in relation to the activities referred to in paragraph (e) of Recommendation 22.

Recommendation 24. Transparency and beneficial ownership of legal persons
Countries should take measures to prevent the misuse of legal persons for Money Laundering or terrorist financing. Countries should ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely fashion by competent authorities. In particular, countries that have legal persons that are able to issue bearer shares or bearer share warrants, or which allow nominee shareholders or nominee directors, should take effective measures to ensure that they are not misused for Money Laundering or terrorist financing. Countries should consider measures to facilitate access to beneficial ownership and control information by financial institutions and DNFBPs undertaking the requirements set out in Recommendations 10 and 22.

Recommendation 28. Regulation and supervision of DNFBPs
Designated non-financial businesses and professions should be subject to regulatory and supervisory measures as

set out below. (a) Casinos should be subject to a comprehensive regulatory and supervisory regime that ensures that they have effectively implemented the necessary AML/CFT measures. At a minimum: casinos should be licensed;competent authorities should take the necessary legal or regulatory measures to prevent criminals or their associates from holding, or being the beneficial owner of, a significant or controlling interest, holding a management function in, or being an operator of, a casino; and competent authorities should ensure that casinos are effectively supervised for compliance with AML/CFT requirements. (b) Countries should ensure that the other categories of DNFBPs are subject to effective systems for monitoring and ensuring compliance with AML/CFT requirements. This should be performed on a risk-sensitive basis. This may be performed by (a) a supervisor or (b) by an appropriate self-regulatory body (SRB), provided that such a body can ensure that its members comply with their obligations to combat Money Laundering and terrorist financing.
The supervisor or SRB should also (a) take the necessary measures to prevent criminals or their associates from being professionally accredited, or holding or being the beneficial owner of a significant or controlling interest or holding a management function, e.g. through evaluating persons on the basis of a "fit and proper" test; and (b) have effective, proportionate, and dissuasive sanctions in line with Recommendation 35 available to deal with failure to comply with AML/CFT requirements.

Recommendation 29. Financial intelligence units
Countries should establish a financial intelligence unit (FIU) that serves as a national Centre for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities, and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly.

10. Appendix 3:

Table 1: FATF Subject Entities

FATF Subject Entities
Financial Subject Entities
Supervisory Financial Entities
Credit Institutions
Financial Intermediaries
Insurance Brokers
Payment Services
Post Payment Services and Remittances
Central Banks
Financial Securities Commissions
Money Exchangers
Designated Non Financial Business Professionals
Precious Goods Dealers
State Endorsed Lotteries
Registers
Notaries
Gaming Inspections and Regulations Bodies
Real Estate and Construction Supervisors
Food Safety Authorities
Tax and Costumes Authorities
Auction Houses
Legal Professionals

Source: FATF

Table 2: Financial Intelligence Units, an Overview, IMF 2004

FIU TYPES			
Administrative	**Law Enforcement (Police Type)**	**Judicial or prosecutorial**	**"Hybrid"**
Andorra	Austria	Cyprus	Denmark
Aruba	Estonia	Luxembourg	Norway
Australia	Germany		
Belgium	Guernsey		
Bolivia	Hungary		
Bulgaria	Iceland		
Canada	Ireland		
Colombia	Jersey		
Croatia	Slovakia		
Czech Republic	Sweden		
France	United Kingdom		
Israel	Portugal		
South Korea			
Liechtenstein			
Malta			
Monaco			
The Netherlands			
The Neth. Antilles			
Panama			
Poland			
Romania			
Russia			
Slovenia			
Spain			
Ukraine			
United States¨			
Venezuela			

Source: Financial Intelligence Units, an Overview, IMF 2004

Table 3: Size of the Shadow Economy as % of GDP using:

Country	Physical Input (Electricity Method 1990)	Currency Demand Method (Schneider Figures avg.1989-90)	Currency Demand Method (Schneider Figures avg. 1990-93)	Currency Demand Method (Johnson et. Al Figures 1990-93)
Australia	15.3	10.1	13	13.1
Austria	15.2	5.1	6.1	5.8
Belgium	19.8	19.3	10.8	15.3
Canada	11.7	12.8	13.5	10
Denmark	16.9	10.8	15	9.4
Finland	13.3			
France	12.3	9	13.8	10.4
Germany	14.6	11.8	12.5	10.5
Great Britain	13.1	9.6	11.2	7.2
Greece	21.8			27.2
Ireland	20.6	11	14.2	7.8
Italy	19.6	22.8	24	20.4
Japan	13.2			8.5
Netherlands	13.4	11.9	12.7	11.8
New Zealand		9.2	9	9
Norway	9.3	14.8	16.7	5.9
Portugal	16.8			15.6
Spain	22.9	16.1	17.3	16.1
Sweden	11	15.8	17	10.6
Switzerland	10.2	6.7	6.9	6.9
USA	10.5	6.7	8.2	13.9
Average	15.08	11.97	13.05	11.77

Sources: Physical input method, Lackó (1996, 1997, 1998,1998a), Johnson, Kaufmann, and Zoido-Lobatón (1998a,b), and Williams and Windebank (1995). 1 Calculated using the MIMIC method and currency demand approach. Source Giles (1999b).

2 Calculated from Ignacio Mauleon (1998).

Table 4: Suspicious Activity Reports

Country Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean
Australia	17212	24801		29089	32449	47386	44775	48155	4062	47386	32812.77
Bahamas, The	203	125	129	138	142	183	167	70	205	297	165.9
Belgium		12830	15554	7170	8673	20001	21000	22960	27767		16994.37
Bermuda			195	565	249	278	415	386	362		350
British Virgin Islands	102	104	153	227	191	153	135	168			154.12
Cayman Islands	221	219	247	320	358	353	406	392	558	568	364.2
Chile	53	153	270	419	478	790	829	179	1127	1721	601.9
Estonia	2601	5272	13861	16999	13655	13536	12157	11224	11204	8204	10871.3
France	12047	12481	14565	17315	19208	22856	27237	28938	38419	45266	23833.2
Germany	10244	10356	9472	9294	9632	8413	7973	9155	8700	8675	9191.4
India		817	1916	4409	10067	20698	31317	31729	61953		20363.25
Italy	9601	11987	12380	23403	36824	30596	60078	92415	75857	84627	43776.8
Japan	113860	158041	235260	272325	294305	337341	364366	349361	377513	349508	285188
Korea, Rep.	24149	52474	92093	136282	236068	389436	290241				174391.85
Latvia	27479	34346	36418	20786	16407	18405	18721	17168	17041		22974.55
Lebanon	185	234	226	202	245	335	289	301	277	432	272.6
Luxembourg	754	811	1008	1587	5171	8681	11423	4891	7238	11023	5258.7
Malta	82	78	70	66	63	102	120	143	202	281	120.7
Portugal	16480	12974	22733	15199	10623	9728	5812	7554	9107	10139	12034.9
Qatar		147	74	96	227	210	248	313	516	702	281.44
Sri Lanka	24	37	89	111	246	185	103	366	718	783	266.2
Turkey	1140	2946	4924	9823	10521	8739	15318	25592	36483	74221	18970.7
United Kingdom			210524	228834	240582	247601	78665	316527	354186	381882	257350.12

Source: National FIU's Annual Reports

Table 5: Disseminated Suspicious Activity Reports

Country Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean
Australia	1800	2963	2638	3072	3096	2422	3092	2910	3924	4414	3033.1
Bahamas, The	42	22	32	54	53	53	16	33	17	21	34.3
Belgium		1166	937	1020	1259	1345	1502	1168			1199.57
Bermuda			11	51	66	82	102	184	116		87.42
British Virgin Islands	2	0	6	2	12	13	15	15			8.125
Cayman Islands	101.66	117	129	133	136	154	144	157	189	98	135.86
Chile	25	281	340	446	374	384	357	56	42	55	236
Estonia	43	48	17	39	55	83	47	12	33	12	38.9
France	411	410	359	384	404	495	522	1326	1395	1635	734.1
Germany	325	289	289	283	329	288	274	282	277	264	290
India		428	935	2270	6571	13744	23689	13854	15288		9597.37
Italy	473	213		14184	23403	18117	53109	64601	71758	82428	36476.22
Japan	71241	98629	146330	189749	208650	234836	256062	256062	306547	338375	210648.1
Korea, Rep.	2267	2331	5234	7711	11868	13110	22173				9242
Latvia	155	146	151	143	270	442	258	259	310		237.11
Lebanon	70	137	134	77	119	157	116	137	132	157	123.6
Luxembourg	255	343	255	429	501	528	600	522	1285	567	528.5
Malta	10	13	3	13	8	11	17	11	12	36	13.4
Portugal	584	724	568	634	703	684	745	954	1101	1248	794.5
Qatar		29	46	32	39	75	182	131	89	292	101.66
Sri Lanka	5	18	30	18	44	65	56	73	189	426	92.4
Turkey	68	112	201	76	73	369	430	401	477	403	261
United Kingdom			13223	13618	14334	13662	12915	14103	14155	14672	13835.25

Source: National FIU's Annual Reports

Table 6: Disseminated Suspicious Activity Reports in percentage of Suspicious Activity Reports received

Country Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean
Australia	10.46	11.95		10.56	9.54	5.11	6.91	6.04	9.66	9.31	8.84
Bahamas, The	20.69	17.60	24.81	39.13	37.32	28.96	9.58	47.14	8.29	7.07	24.06
Belgium		0.0909	0.0602	0.1423	0.1452	0.0672	0.0715	0.0509	0		0.078
Bermuda			0.0564	0.0903	0.2651	0.295	0.2458	0.4767	0.3204		0.249
British Virgin Islands	1.96	0.00	3.92	0.88	6.28	8.50	11.11	8.93			5.20
Cayman Islands	46.00	53.42	52.23	41.56	37.99	43.63	35.47	40.05	33.87	17.25	40.15
Chile	47.17	18.37	12.59	10.64	78.24	48.61	43.06	31.28	3.73	3.20	29.69
Estonia	1.65	0.91	0.12	0.23	0.40	0.61	0.39	0.11	0.29	0.15	0.49
France	3.41	3.28	2.46	2.22	2.10	2.17	1.92	4.58	3.63	3.61	2.94
Germany	3.17	2.79	3.05	3.04	3.42	3.42	3.44	3.08	3.18	3.04	3.16
India		0.5239	0.488	0.5149	0.6527	0.664	0.7564	0.4366	0.2468		0.53
Italy	4.93	1.78	0.00	60.61	63.55	59.21	88.40	69.90	94.60	97.40	54.04
Japan	62.57	62.41	62.20	69.68	70.90	69.61	70.28	73.29	81.20	96.81	71.90
Korea, Rep.	9.39	4.44	5.68	5.66	5.03	3.37	7.64				5.89
Latvia	0.56	0.43	0.41	0.69	1.65	2.40	1.38	1.51	1.82		1.21
Lebanon	37.84	58.55	59.29	38.12	48.57	46.87	40.14	45.51	47.65	36.34	45.89
Luxembourg	33.82	42.29	25.30	27.03	9.69	6.08	5.25	10.67	17.75	5.14	18.30
Malta	12.20	16.67	4.29	19.70	12.70	10.78	14.17	7.69	5.94	12.81	11.70
Portugal	3.54	5.58	2.50	4.17	6.62	7.03	12.82	12.63	12.09	12.31	7.93
Qatar		0.1973	0.6216	0.3333	0.1718	0.3571	0.7339	0.4185	0.1725	0.416	0.380
Sri Lanka	20.83	48.65	33.71	16.22	17.89	35.14	54.37	19.95	26.32	54.41	32.75
Turkey	5.96	3.80	4.08	0.77	0.69	4.22	2.81	1.57	1.31	0.54	2.58
United Kingdom			0.0628	0.0595	0.0596	0.0552	0.1642	0.0446	0.04	0.0384	0.065

Notes: Computed from information on national FIU’s Annual Reports

Table 7: Suspicious Activity Reports Submitted by Legal Professionals in percentage of Suspicious Activity Reports received

Country Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean
Australia		0.0367	0.0161	0.0039	0.0784	0.0253	0.0222	0.0603	0.0312		0.03
Bahamas, The	6.50	2.40	0.00	2.16	6.31	12.57	4.77	5.92	8.30	11.78	6.07
Belgium				0.0174	0.0112	0.0186	0.0133	0.0173	0.017		0.02
Bermuda			0.1	0.057	0.07	0.037	0.04	0.04		0.0249	0.05
British Virgin Islands	84.31	67.74	43.82	70.16	51.63	43.48	67.09				61.18
Cayman Islands	17.19	17.35	15.38	11.88	10.61	10.76	9.36				13.22
Chile	1.45	1.43	3.78	7.47	14.23	7.96	5.59	8.02	21.10	16.25	8.73
Estonia	6.00	1.95	1.71	4.30	4.00	2.47	8.00	2.09	1.79	2.71	3.50
France	17.60	3.87	2.62	2.48	5.00	4.04	4.07	3.85	3.11	14.53	6.12
Germany	0.24	0.26	0.52	0.41	1.19	0.93	1.11	1.03	1.13	0.94	0.78
India		0.3	0.2323	0.1683	0.1011	0.1	0.0529	0.0689	0.0258		0.13
Italy	2.57	1.79	1.40	0.58	0.61	1.61	2.48	2.15	1.51	2.20	1.69
Japan	0.10	0.10	0.10	0.20	0.00	0.00	0.00	0.10	0.00	0.00	0.06
Korea, Rep.	1.53	1.66	1.90	3.34	3.95	10.13	10.09				4.66
Latvia	1.74	13.01	7.95	6.29	1.48	3.39	4.26	1.89	1.94		4.66
Lebanon	1.62	1.17	0.40	1.60	3.80	3.70	1.10	0.90	2.60	1.00	1.79
Luxembourg	2.12	1.97	1.59	1.01	0.31	0.18	0.14	0.33	0.22	0.15	0.80
Malta		0.11	0.05	0.14	0.13	0.08	0.15	0.13	0.09	0.132	0.11
Portugal	0.30	0.38	0.22	0.32	0.46	0.50	0.84	0.65	0.54	0.48	0.42
Qatar		0.135	0.125	0.2188	0.1013	0.1857	0.03	0.03	0	0.01	0.09
Sri Lanka	4.17	2.70	8.99	3.60	1.22	1.62	1.48	1.64	2.65	2.30	3.04
Turkey	41.23	15.95	9.55	4.78	4.47	5.38	3.07	1.84	1.29	0.63	8.82
United Kingdom					0.0717	0.0928	0.096	0.0423	0.0246	0.0224	0.06

Source: National FIU's Annual Reports.

Notes: Computed from information on national FIU's Annual Reports

Table 8: FATF Compliance Scores

Ratings of Compliance with FATF Recommendations	CODE	Score, Yepes 2011*	Description
Compliant	**C**	**1**	The Recommendation is fully observed with respect to all essential criteria.
Largely Compliant	**LC**	**0.66**	There are only minor shortcomings, with a large majority of the essential criteria being fully met.
Partially Compliant	**PC**	**0.33**	There are only minor shortcomings, with a large majority of the essential criteria being fully met.
Non-Compliant	**NC**	**0**	There are only minor shortcomings, with a large majority of the essential criteria being fully met.
Non-Applicable	**NA**	**-**	A requirement or part of a requirement does not apply, due to the structural, legal or institutional features of a country e.g. a particular type of financial institution does not exist in that country.

Source: FATF 40 Recommendations; Methodology. * Scores computed in Yepes, 2011

List of Variables	Abbreviations
Dependent Variables*	
Legal Prevention Measures	**Legal**
Institutional Prevention Measures	**Institutional**
Financial Prevention Measures	**Financial**
DNFBPs Prevention Measures	**DNFBPs**
Informal Sector Prevention Measures	**Informal Sector**
Entity Transparency Measures	**Entity Transparency**
International Cooperation Measures	**International Cooperation**
FATF40 Index	**FATF40**
Independent Variables	
Year of Assessment 2007	**YoA2007**
Logarithm of GDP	**LogGDP**
Criminalization of Money Laundering	**CML**
Regulatory Quality	**RQ**
Control for Corruption	**CO**
FATF Membership	**FATF**
United Nations International Drug Index	**UNDIX**
Monetary Base 2 in percent of GDP	**M2**
Trade Openness	**TO**
Net Interest Margin	**NIM**
Banking Concentration	**BC**
Foreign Direct Investment in percent of GDP	**FDP**
Ratio of Net Financial Service Exports	**RNFSE**
Political Mandates	**Mandates**

Notes: *FATF thematic components and the FATF Compliance Index with the 40 recommendations computed in accordance with Yepes, 2011;
**Designated Non Financial Business Professionals

Table 9 Summary Statistics for all variables 2004-2008:

Variable	Obs	Mean	Std. Dev.	Min	Max
Dependent Variables					
Legal	111	42.38138	20.07949	0	100
Institutional	111	52.28057	21.35757	4.714286	100
Financial	111	40.5577	18.25084	7.952381	100
DNFBPs	111	13.3033	15.70219	0	100
Informal Sector	111	46.21171	27.03227	0	100
Entity Transparency	111	43.11712	20.53947	0	100
International Cooperation	111	57.6036	22.15971	0	100
FATF40 Index	111	41.55527	16.70689	10.08642	100
Independent Variables					
Year of Assessment 2007	111	0.2702703	0.4461134	0	1
Logarithm of GDP	110	4.095835	0.5016991	2.948672	5.072608
Criminalization of Money Laundering	107	2.64486	0.7301116	0	3
Regulatory Quality	111	63.05642	20.49313	4.890481	100
Control for Corruption	111	47.02326	23.01614	3.281965	100
FATF Membership	111	0.2252252	0.419625	0	1
United Nations International Drug Index	111	15.68261	13.77364	2.23	52.67
Monetary Base	111	69.99867	48.41524	0	274.6251
Trade Openness	111	96.51364	55.97927	0.2465088	417.1153
Net Interest Margin	106	0.044032	0.0259893	0.0062478	0.1272364
Banking Concentration	99	0.7220368	0.1812192	0.2343564	1
Foreign Direct Investment	109	0.0782432	0.0791037	-0.0408443	0.4665622
Ratio of Net Financial Service Exports	111	1.41679	5.654205	-0.42	42.08

Table 10: Correlations Between the Variables for the period 2004-2008:

	FATF40	LogGDP	CML	RQ	CO	FATF	UNDIX	M2	TO	NIM	FDP	YOA 2007	RNFSE	BC
FATF40	1													
LogGDP	0.61	1												
CML	0.42	0.53	1											
RQ	0.64	0.82	0.42	1										
CO	0.56	0.77	0.37	0.9	1									
FATF	0.38	0.4	0.24	0.48	0.52	1								
UNDIX	0.02	0.07	-0.1	-0.03	0.02	0	1							
M2	0.43	0.47	0.31	0.56	0.55	0.38	-0.05	1						
TO	0.18	0.3	0.15	0.31	0.28	0.07	-0.13	0.45	1					
NIM	-0.52	-0.69	-0.43	-0.56	-0.61	-0.39	-0.1	-0.56	-0.23	1				
FDP	0.28	0.27	0.2	0.29	0.26	-0.07	-0.15	0.38	0.54	-0.18	1			
YoA2007	-0.13	0.06	0.06	0	0.02	-0.04	-0.03	0.02	0.23	-0.1	0.12	1		
RNFSE	0.09	0.22	0.01	0.18	0.19	-0.1	-0.06	0.1	0.05	-0.14	0.25	0.15	1	
BC	-0.05	-0.01	-0.05	0.03	0.16	-0.01	-0.07	0.06	0.14	-0.05	0.15	0	0.17	1

Table 11: Cross Sectional OLS Regression: Determinants of AMLCFT Compliance Index 2004-2008:

FATF40 (1)*		FATF40 (2)		FATF40 (3)		FATF40 (4)	
LogGDP	10.30316	**CML**	4.288309	**CML**	4.526788	**CML**	4.583773
	0***		0.02**		0.023**		0.029**
		RQ	0.5422855	**RQ**	0.6715799	**RQ**	0.5623569
			0***		0***		0.002***
		CO	-0.154483	**CO**	-0.235855	**CO**	-0.085095
			0.219		0.112		0.538
		FATF	4.980065	**FATF**	2.584053	**FATF**	1.190234
			0.137		0.424		0.716
		UNDIX	0.0909625	**UNDIX**	0.0870311	**UNDIX**	0.050524
			0.184		0.194		0.446
		M2	0.011831	**TO**	0.0076395	**M2**	0.0202103
			0.706		0.719		0.548
		TO	-0.017964	**NIM**	-79.76668	**TO**	0.0067321
			0.473		0.13		0.777
		FDP	35.935	**RNFSE**	0.0169336	**YOA2007**	-4.537664
			0.043**		0.956		0.109
		YoA2007	-3.825669	**YoA2007**	-4.04713	**BC**	-4.58765
			0.122		0.155		0.416
Obs	110	**Obs**	106	**Obs**	104	**Obs**	97
F(1, 109)	966.97	**F(9, 97)**	195.05	**F(9, 95)**	195.4	**F(9, 88)**	190.73
Prob > F	0	**Prob > F**	0	**Prob > F**	0	**Prob > F**	0
Adj. R-squared	0.899	**Adj. R-squared**	0.9253	**Adj. R-squared**	0.9247	**Adj. R-squared**	0.9308
R-squared	0.8999	**R-squared**	0.9316	**R-squared**	0.9312	**R-squared**	0.9373

Notes: *(1), (2),(3) and (4) are references for each equation due to differences in the set of independent variables used; One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 12: Cross Sectional OLS regressions: Determinants of AMLCFT Compliance Index Components 2004-2008:

	Legal	Institutional	Financial	DNFBPs	Informal Sector	Entity Transparency	International Cooperation
LogGDP	1.871046	2.92417	1.617067	2.851666	11.50666	9.908157	4.741687
	0.602	0.423	0.599	0.332	0.034**	0.098*	0.126
CML	6.523668	4.649899	2.645171	2.42252	-3.534032	1.99029	2.767478
	0.007***	0.063*	0.274	0.145	0.374	0.625	0.167
RQ	0.2806856	0.7375489	0.5676806	0.1564122	0.7572728	0.2910251	0.4981622
	0.239	0.004***	0.01***	0.4	0.018**	0.465	0.021**
CO	0.0722268	-0.3151741	-0.3299607	-0.0756321	-0.3797612	-0.3190379	-0.2351867
	0.685	0.106	0.049**	0.617	0.123	0.211	0.118
FATF	4.866899	2.441641	8.571293	0.1256645	7.746092	-3.651736	4.511491
	0.281	0.572	0.037**	0.978	0.249	0.489	0.175
UNDIX	0.0232897	0.1409286	0.1205974	-0.0537365	-0.1482097	0.2018751	0.0390999
	0.827	0.225	0.233	0.554	0.445	0.209	0.646
M2	0.0309413	-0.0037754	0.0196866	-0.0322112	-0.0501623	-0.0701771	-0.0124285
	0.457	0.929	0.592	0.414	0.415	0.195	0.705
TO	-0.0575358	-0.0113962	0.0314186	-0.0354829	-0.084991	-0.0002077	-0.0233498
	0.075*	0.71	0.278	0.146	0.062*	0.995	0.323
NIM	-64.75596	-142.5942	-52.88995	-172.2218	-226.7456	-171.545	-130.9835
	0.419	0.06*	0.428	0***	0.036**	0.112	0.035**
FDP	31.93658	30.0704	33.73684	70.46592	28.49412	42.52147	39.78974
	0.103	0.123	0.131	0.001***	0.306	0.136	0.024**
YoA2007	-3.814596	-3.646726	-7.105664	-7.562708	-4.507109	3.135511	-3.987612
	0.229	0.283	0.021**	0.011**	0.397	0.489	0.119
Obs	103	103	103	103	103	103	103
F(11, 92)	94.79	168.2	89.8	14.43	53.05	67.56	163.86
Prob > F	0	0	0	0	0	0	0
Adj R-squared	0.9008	0.928	0.8985	0.5874	0.8166	0.8234	0.9363
R-squared	0.9114	0.9357	0.9093	0.6315	0.8362	0.8423	0.9362

Notes: One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 13: Summary Statistics for all variables 2006-2015 with 23 Countries:

Variable	Obs	Mean	Std. Dev.	Min	Max
Dependent Variables					
Legal	230	54.07971	14.24953	27.83333	100
Institutional	230	63.70807	13.08657	33.28571	100
Financial	230	48.34783	15.93796	22.2381	100
DNFBPs	230	17.36232	16.33941	0	100
Informal Sector	230	61.54348	23.94039	16.5	100
Entity Transparency	230	45.3913	23.42623	11	100
International Cooperation	230	69.32919	16.59391	38.14286	100
FATF40 Index	230	49.13236	13.69196	24.27778	100
Key Index	230	31.4686	14.95788	11	100
Independent Variables					
Year of Assessment 2007	230	0.3478261	0.4773193	0	1
Logarithm of GDP	230	11.27893	1.085018	8.920046	12.87604
Criminalization of Money Laundering	230	2.826087	0.4812805	1	3
Regulatory Quality	230	77.67816	14.17251	39.53347	100
Control for Corruption	230	64.55241	19.28838	16.6731	100
FATF Membership	230	0.4347826	0.4968096	0	1
United Nations International Drug Index	230	22.08217	16.59752	5.06	52.67
Monetary Base 2 in percent of GDP	230	118.0352	93.62887	0	457.6266
Trade Openness	230	496.5382	282.002	0.2400975	999.3354
Net Interest Margin	230	0.0222873	0.0144343	-0.012432	0.0959112
Banking Concentration	230	0.122341	-0.18204	0	100
Ratio of Net Financial Service Exports	230	36.71912	21.74364	0	98.76166
Political Mandates	230	17.56522	11.63051	5	56

Table 14: Correlations Between the Variables for the period 2006-2015 with 23 countries:

	FATF40	LogGDP	CML	RQ	CO	FATF	UNDIX	M2	TO	NIM	FDP	YoA 2007	RNFSE
FATF40	1.00												
LogGDP	0.27	1.00											
CML	0.33	0.12	1.00										
RQ	0.23	-0.14	0.26	1.00									
CO	0.09	-0.10	0.28	0.81	1.00								
FATF	-0.03	0.59	0.14	0.14	0.20	1.00							
UNDIX	-0.46	0.19	-0.24	-0.74	-0.65	-0.02	1.00						
M2	-0.02	-0.09	0.17	0.20	0.21	0.11	-0.16	1.00					
TO	-0.28	0.56	0.01	-0.24	-0.31	0.28	0.41	-0.09	1.00				
NIM	-0.45	0.06	-0.23	-0.47	-0.45	-0.16	0.60	-0.31	0.12	1.00			
FDP	0.14	-0.64	0.11	0.26	0.24	-0.24	-0.26	0.31	-0.55	-0.15	1.00		
YoA2007	0.33	-0.16	0.26	0.15	0.15	0.10	-0.16	0.02	-0.29	0.13	0.08	1.00	
RNFSE	-0.12	-0.06	0.17	0.21	0.27	0.15	-0.07	0.24	0.03	-0.29	0.29	-0.32	1.00

Notes: * 23 Countries: Australia, The Bahamas, Bermuda, Belgium, British Virgin Islands, Cayman Islands, Chile, Estonia, France, Germany, India, Italy, Japan, Rep. of Korea, Latvia, Luxembourg, Malta, Portugal, Qatar, Sri Lanka, Turkey and the United Kingdom.

Table 15: Cross Sectional OLS Regression: Determinants of AMLCFT Compliance Index 2006-2015 23 Countries:**

FATF40 (1)*		FATF40 (2)		FATF40 (3)	
LogGDP	4.687452	**CML**	12.16453	**CML**	11.53765
	0***		0***		0***
		RQ	0.605749	**RQ**	0.6436329
			0***		0***
		CO	-0.355105	**CO**	-0.352026
			0***		0***
		FATF	0.160587	**FATF**	-0.498754
			0.918		0.756
		UNDIX	-0.139295	**UNDIX**	0.0641797
			0.006***		0.312
		M2	-0.010197	**TO**	-0.000874
			0.243		0.787
		TO	-0.003651	**NIM**	-307.5803
			0.362		0***
		FDP	-10.16883	**RNFSE**	-0.084111
			0.052*		0.022**
		YoA2007	5.475441	**YoA2007**	6.904317
			0.002***		0***
Obs	230	**Obs**	230	**Obs**	230
F(1, 229)	3304.9	**F(9, 221)**	856.55	**F(9, 221)**	974.91
Prob > F	0	**Prob > F**	0	**Prob > F**	0
Adj R-squared	0.9227	**Adj R-squared**	0.9553	**Adj R-squared**	0.9595
R-squared	0.9313	**R-squared**	0.9652	**R-squared**	0.9677

Notes: *(1),(2),(3) and (4) are references for each equation due to differences in the set of independent variables used; **Variable Banking Concentration was not found for the period 2006-2016 in the following countries: The Bahamas, Bermuda, The British Virgin Islands, Cayman Islands, Lebanon, Malta, Qatar and Turkey. Therefore, the 4th Specification of part 1 was not computed in parts 2 and 3. One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 16: Cross Sectional OLS regressions: Determinants of AMLCFT Compliance Index Components 2006-2015 with 23 Countries:

	Legal	Institutional	Financial	DNFBPs P	Informal Sector	Entity Transparency	International Cooperation
LogGDP	3.122616	3.772582	3.178291	-0.4203932	5.677966	4.980863	3.834097
	0***	0***	0***	0.496	0***	0***	0***
CML	5.962284	10.5661	11.79681	6.503069	4.566699	3.725441	4.869302
	0***	0***	0***	0***	0.138	0.07*	0.005***
RQ	0.463637	0.3747254	0.1927598	0.0622955	0.8827407	-0.098428	0.730456
	0***	0***	0.086*	0.546	0***	0.439	0***
CO	-0.254645	-0.2447405	-0.3544975	0.0338891	-0.7963428	-0.1204323	-0.4995505
	0***	0***	0***	0.638	0***	0.24	0***
FATF	-9.936599	-10.42229	-2.186403	-15.15245	9.789	-9.763457	-1.677726
	0***	0***	0.258	0***	0.001***	0***	0.526
UNDIX	0.2017923	-0.1169587	-0.1004972	0.0440287	-0.3989185	0.1624763	-0.0677032
	0.009***	0.091*	0.242	0.587	0.008***	0.097*	0.536
M2	-0.029605	-0.0175693	-0.0109009	0.0190063	-0.0807461	-0.0882886	-0.0218513
	0***	0.01***	0.273	0.054*	0***	0***	0.091*
TO	-0.015294	-0.017467	0.0000183	0.0037546	-0.0240945	0.001787	-0.0156747
	0***	0***	0.997	0.324	0.001***	0.72	0.001***
NIM	-530.1993	-206.4267	-426.1033	-283.6562	-300.1441	-648.2899	-220.0224
	0***	0.001***	0***	0***	0.037**	0***	0.01***
FDP	1.442306	-10.4391	0.0499001	-3.551477	-12.31743	61.90354	23.98476
	0.76	0.051*	0.995	0.607	0.191	0***	0.002***
Y0A2007	13.87138	4.408181	2.09093	13.35456	4.136149	31.72981	5.550064
	0***	0.021**	0.467	0***	0.192	0***	0.021***
Obs	230	230	230	230	230	230	230
F(11, 219)	782.39	1407.01	320.16	75.04	317.34	300.29	666.3
Prob > F	0	0	0	0	0	0	0
Adj R-squared	0.9653	0.978	0.9242	0.6898	0.9252	0.8968	0.9552
R-squared	0.967	0.979	0.9278	0.7046	0.9288	0.9017	0.9573

Notes: One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 17: Cross Sectional OLS Regression: Determinants of Key Set Compliance Index 2006-2015
23 Countries *

Key Set (1)*		Key Set (2)		Key Set (3)	
LogGDP	2.713055	**CML**	0.328998	**CML**	-0.613102
	0***		0.808		0.64
		RQ	0.3810672	**RQ**	0.4605129
			0***		0***
		CO	0.0550015	**CO**	0.018209
			0.435		0.799
		FATF	-1.664392	**FATF**	-3.515948
			0.349		0.036**
		UNDIX	-0.083987	**UNDIX**	0.1376193
			0.097*		0.05**
		M2	-0.007897	**TO**	-0.005912
			0.39		0.052*
		TO	-0.005202	**NIM**	-339.3402
			0.191		0***
		FDP	1.602228	**RNFSE**	0.0214959
			0.768		0.624
		YOA2007	8.643405	**YOA2007**	11.83628
			0***		0***
Obs	230	**Obs**	230	**Obs**	230
F(1, 229)	831.07	**F(9, 221)**	198.57	**F(9, 221)**	227.07
Prob > F	0	**Prob > F**	0	**Prob > F**	0
Adj R-squared	0.7781	**Adj R-squared**	0.8739	**Adj R-squared**	0.8855
R-squared	0.779	**R-squared**	0.8788	**R-squared**	0.8899

Notes: *(1),(2) and (3) are references for each equation due to differences in the set of independent variables used;
One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 18: Cross Sectional OLS regressions: Determinants of Key Recommendations Compliance Index by Components 2006-2015 for 23 Countries

	Rec.10	Rec.12	Rec.22	Rec.20	Rec.23	Rec.28	Rec.24	Rec.16	Rec.14
LogGDP	-2.397	-3.744	0.420	7.036	1.214	1.649	-4.242	-5.886	14.811
	0.009***	0***	0.635	0***	0.155	0.051*	0.003***	0***	0***
CML	18.339	8.027	0.428	-28.188	-1.295	6.945	16.756	0.760	-35.889
	0***	0***	0.833	0***	0.487	0***	0***	0.769	0***
RQ	0.577	1.101	0.278	0.602	-0.029	-0.297	0.029	1.397	-0.068
	0***	0***	0.037**	0.001***	0.805	0.012**	0.890	0***	0.744
CO	-0.538	-0.218	-0.127	-0.062	0.313	0.296	0.409	-0.242	0.505
	0***	0.03**	0.120	0.710	0.001***	0.001***	0.004***	0.144	0.001***
FATF	17.013	-0.647	-5.909	-16.991	-5.463	-17.922	-16.232	11.459	-1.529
	0***	0.822	0.018**	0***	0.019**	0***	0***	0.005***	0.633
UNDIX	-0.432	0.461	-0.217	0.608	-0.250	-0.226	0.607	0.527	0.033
	0***	0***	0.023**	0***	0.006***	0.009***	0***	0.001***	0.808
M2	-0.026	-0.055	0.004	0.014	0.007	-0.076	0.053	0.002	-0.098
	0.104	0***	0.806	0.459	0.560	0***	0.021**	0.908	0***
TO	0.001	-0.037	0.005	0.018	-0.001	0.000	-0.006	0.013	-0.051
	0.742	0***	0.312	0.023***	0.809	0.941	0.440	0.095*	0***
NIM	191.820	-396.914	-323.501	-974.409	-214.732	-184.837	-346.297	-724.618	-708.091
	0.028**	0***	0***	0***	0.031**	0.045**	0.006***	0***	0***
FDP	30.177	-27.811	2.465	13.036	-16.662	78.542	-21.526	-25.387	7.385
	0.001***	0.014**	0.785	0.199	0.042**	0***	0.135	0.011**	0.483
YOA2007	-4.126	2.850	25.693	31.611	15.058	9.106	16.526	-11.889	25.729
	0.129	0.420	0***	0***	0***	0.001***	0***	0.002***	0***
Obs	230	230	230	230	230	230	230	230	230
F(11, 219)	189.43	56.74	37.37	177.65	59.93	73.25	73.7	64.31	162.59
Prob > F	0	0	0	0	0	0	0	0	0
Adj R-squared	0.8749	0.7236	0.6414	0.7685	0.6113	0.6951	0.6	0.6454	0.8602
R-squared	0.8809	0.7369	0.6586	0.817	0.6299	0.7795	0.7097	0.6624	0.8669

Table 19: Cross Sectional OLS regressions: FATF40 Index and Key Index for 2006-2015 with with Political Mandates.

FATF40 Index		Key Index	
LogGDP	3.278618	**LogGDP**	1.992849
	0***		0.007***
CML	7.584749	**CML**	-2.803544
	0***		0.07*
RQ	0.369766	**RQ**	0.4273934
	0.001***		0***
CO	-0.3308231	**CO**	-0.0765868
	0***		0.345
FATF	-4.609411	**FATF**	-2.590071
	0.007***		0.126
UNDIX	-0.0048168	**UNDIX**	0.0251767
	0.954		0.738
M2	-0.0241202	**M2**	-0.0096035
	0.009***		0.245
TO	-0.0088798	**TO**	-0.0053161
	0.013**		0.146
NIM	-427.5233	**NIM**	-345.3415
	0***		0***
FDP	8.377953	**FDP**	7.565193
	0.12		0.183
YOA2007	9.103621	**YOA2007**	12.39964
	0***		0***
Mandates	0.0110093	**Mandates**	-0.27441
	0.874		0***
Obs	230	**Obs**	230
F(12, 218)	645.34	**F(12, 218)**	200.05
Prob > F	0	**Prob > F**	0
R-squared	0.9659	**R-squared**	0.8972

Notes: One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 20: Cross Sectional Regressions Cross Sectional OLS regressions of SARs Fillings, Disseminated SARs and SARs Fillings by Legal Professionals on the FATF40 Index and the Key Index for 2006-2015.

SARs Fillings			
FATF40 Index	620.8855	**Key Index**	931.8304
	0***		0***
Obs	213	**Obs**	213
F(1, 212)	44.16	**F(1, 212)**	33.42
Prob > F	0	**Prob > F**	0
R-squared	0.1237	**R-squared**	0.119
Disseminated SARs in Percent of total SARs			
FATF40 Index	0.4056981	**Key Index**	0.4959529
	0***		0***
Obs	210	**Obs**	210
F(1, 211)	151.87	**F(1, 211)**	117.04
Prob > F	0	**Prob > F**	0
R-squared	0.4036	**R-squared**	0.2532
SARs Fillings by Legal Professionals			
FATF40 Index	0.1410588	**Key Index**	0.2215548
	0***		0***
Obs	204	**Obs**	204
F(1, 202)	53.61	**F(1, 202)**	44.48
Prob > F	0	**Prob > F**	0
R-squared	0.2854	**R-squared**	0.2903

Notes: One, two and three asterisks denote 10, 5 and 1 percent level respectively.

Table 21: Compliance Rating with the Key Set of Recommendations

Country	Rec.10	Rec.12	Rec.22	Rec.23	Rec.28	Rec.24	Rec.16	Rec.20*	Rec.13*	SR.SRIV*	Total
Australia	0.33	0.66	0	0	0	0.33	0.33		0.66	0.66	0.3300
Bahamas, The	0.33	0.33	0.33	0.33	0.33	0.66	0		0.33	1	0.4044
Belgium	0.66	0.33	0.66	0.66	0.33	0.66	0.33		0.66	1	0.5877
Bermuda	0.66	0	0	0	1	0	0		0.33	0.33	0.2577
British Virgin Islands	0.33	0.66	0.33	0.33	0.33	0.33	0.66		0.66	1	0.5144
Cayman Islands	0.33	0.66	0.33	0.33	0.66	0.66	0.33		0.66	0.66	0.5133
Chile	0.33	0.33	0	0.33	0	0.33	0.33		0	0	0.1833
Estonia	0.66	0.66	0.33	0.33	0.33	0.66	0.66		0.66	0.66	0.5500
France	0.66	0.33	0.33	0.33	0	0.66	1		0.66	0.66	0.5144
Germany	0.33	0.33	0	0	0	0	1		0.33	0.33	0.2577
India	0.33	0.33	0	0	0	0.33	0		0	0.33	0.1466
Italy	0.33	0	0	0	0	1	0		0.33	0.33	0.2211
Japan	0	0	0	0.33	0.33	0	0		0.66	0.66	0.2200
Korea, Rep.	0.33	0	0	0	0	0	0.33		0.33	0.33	0.1466
Latvia	0.33	0.33	0.33	0	0.33	0	0		0.66	0.33	0.2566
Lebanon	0.33	0	0	0	0	0.33	0.66		1	0	0.2577
Luxembourg	0.33	0.33	0	0	0	0.33	0.33		0.33	0.33	0.2200
Malta	0.66	0.33	0.66	0.33	0.33	1	0.33		0.33	0	0.4411
Portugal	0.66	0.00	0.33	0.33	0.33	0.00			0.66	0.66	0.3311
Qatar	0	0	0	0	0.33	0.66	0		0.33	0	0.1466
Sri Lanka	0	0	0	0	0	0	0		1	1	0.1111
Turkey	0.33	0	0	0	0	0	0		0.33	0.33	0.1100
United Kingdom	0.33	0	0.33	0.66	0.33	0.33	0.33		1	1	0.4788

Source: Mutual Evaluation Reports, FATF

Notes: *The FATF 40 Recommendations results from compiling the previous FATF 40 +9 Special Recommendations. The FATF 40+9 were re-arranged in 2012 to make the present 40 and recommendation 13 and Special Recommendation IV became the new recommendation 20.

Table 22: Variables and Sources

Variables and Sources Part 1	
Anti Money Laundering and Financing of Terrorism	FATF Mutual Evaluations
Legal Prevention Measures	FATF Mutual Evaluations
Institutional Prevention Measures	FATF Mutual Evaluations
Financial Institutions Prevention Measures	FATF Mutual Evaluations
DNFBPs Prevention Measures	FATF Mutual Evaluations
Informal Sector Prevention Measures	FATF Mutual Evaluations
Entity Transparency Measures	FATF Mutual Evaluations
International Cooperation Measures	FATF Mutual Evaluations
Logarithm of GDP	World Development Indicators 23-03-2017
Criminalization of Money Laundering	International Narcotics Control Strategy
Regulatory Quality	World Governance Indicators, World Bank
Control for Corruption	World Governance Indicators, World Bank
FATF Membership	FATF
United Nations International Drug Index	International Drugs Index 2005
Monetary Base 2 in percent of GDP	International Financial Statistics (IMF), World Economic Outlook. The Economist Intelligence Unit (Country Data). World Development Indicators. Federal reserve Economic Data.
Trade Openness	World Development Indicators 23-03-2017
Net Interest Margin	World Development Indicators 23-03-2017
Foreign Direct Investment	World Development Indicators 23-03-2017
Net Interest Margin	A New Database on Financial Development and Structure. World bank
Ratio of Net Financial Service Exports	Zoromé (2017)
Banking Concentration	A New Database on Financial Development and Structure. World bank

Variables and Sources Part 2 & 3	
Suspicious Activity Reports	Financial Intelligence Units Official Annual Reports
Disseminated Suspicious Activity Reports	Financial Intelligence Units Official Annual Reports
Suspicious Activity Reports by Legal Professionals	Financial Intelligence Units Official Annual Reports
Key Set of Recommendations	FATF Mutual Evaluations
Political Mandates	Change of Governor General, President or Prime Minister

Table 23: Country Sample in Part 1

Country Sample in Part 1				
Albania	Croatia	Italy	Myanmar	South Africa
Antigua & Barbuda	Colombia	Israel	Namibia	Sri Lanka
Australia	Cyprus	Jamaica	Nepal	Spain
Azerbaijan	Czech Republic	Japan	Nigeria	St. Lucia
Bahamas	Denmark	Jordan	Norway	Sudan
Bahrain	Djibouti	Korea	Palau	Sweden
Barbados	Dominican Rep.	Kyrgyzstan	Panama	Switzerland
Belarus	Ecuador	Latvia	Paraguay	Syria
Belgium	Egypt	Lithuania	Peru	Taiwan
Bermuda	Estonia	Macao SAR	Poland	Tajikistan
Bolivia	Fiji	Macedonia	Portugal	Thailand
Botswana	Finland	Malawi	Qatar	Trinidad and Tobago
British Virgin Is.	Gambia	Malaysia	Romania	Tunisia
Brunei	Georgia	Mali	Russia	Turkey
Bulgaria	Greece	Malta	Rwanda	UAE
Cambodia	Haiti	Mauritania	Samoa	Uganda
Canada	Hong Kong	Mauritius	San Marino	UK
Cape Verde	Hungary	Mexico	Seychelles	Ukraine
Cayman islands	Iceland	Moldova	Sierra Leone	Uruguay
Chile	India	Mongolia	Singapore	USA
China	Indonesia	Montenegro	Slovakia	Vanuatu
Costa Rica	Ireland	Morocco	Slovenia	Yemen
				Zimbabwe

Stata Code: Part 1 range A:2 to Z:114

```
rename A Country
rename B Year
rename C Legal
rename D Institutional
rename E Financial
rename F DNFBPs
rename G Informal
rename H Transparency
rename I International
rename J AML
rename K CFT
rename L AMLCFT
rename M Overall
rename N Yoa2007
rename O LogGDP
rename P CML
rename Q RQ
rename R CO
rename S FATF
rename T UNDIX
rename U M2
rename V TO
rename W NIM
rename X BC
rename Y FDP
rename Z RNFSE
sum
pwcorr
regress Legal LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress Institutional LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress Financial LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress DNFBPs LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress Informal LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress Transparency LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress International LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP Yoa2007, noconstant
regress Overall LogGDP, noconstant
regress Overall CML RQ CO FATF UNDIX M2 TO FDP Yoa2007, noconstant
regress Overall CML RQ CO FATF UNDIX  TO NIM RNFSE Yoa2007, noconstant
regress Overall CML RQ CO FATF UNDIX   M2 TO Yoa2007 BC, noconstant
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Stata Code: Part 2 & 3 range A:2 to AN:232

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rename A Country
rename B Year
rename C STRs
rename D Diss
rename E DissPercent
rename F STRslaw
rename G LogGDP
rename H CML
rename I FATF
rename J UNDIX
rename K M2
rename L TO
rename M NIM
rename N FDP
rename O RNFSE
rename P CO
rename Q RQ
rename R MyRating
rename S Overall
rename T Mandates
rename U R10
rename V R12
rename W R22
rename X R23
rename Z R28
rename AA R16
rename AB R13
rename AC R14
rename AD PF
rename AE Ctax
rename AF COA
rename AG Legal
rename AH INstitutional
rename AI Financial
rename AJ DNFBPs
rename AK Informal
rename AL Transparency
rename AM International
rename AN AMLCFT
sum
regress Overall LogGDP, noconstant
regress Overall CML RQ CO FATF UNDIX M2 TO FDP COA, noconstant
regress Overall CML RQ CO FATF UNDIX  TO NIM RNFSE COA, noconstant
regress Legal LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress INstitutional LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress Financial LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress DNFBPs LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress Informal LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress Transparency LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress International LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress MyRating LogGDP, noconstant
regress MyRating CML RQ CO FATF UNDIX M2 TO FDP COA, noconstant
regress MyRating CML RQ CO FATF UNDIX  TO NIM RNFSE COA, noconstant
regress R10 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R12 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R22 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R23 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress Y LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R28 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R16 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R13 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
regress R14 LogGDP CML RQ CO FATF UNDIX M2 TO NIM FDP COA, noconstant
pwcorr
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